



# Washington State Auditor's Office

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## Financial Statements and Federal Single Audit Report

### City of Spokane

Spokane County

For the period January 1, 2013 through December 31, 2013

Published September 29, 2014

Republished February 11, 2016

Report No. 1012701





## Washington State Auditor's Office

February 11, 2016

Mayor and City Council  
City of Spokane  
Spokane, Washington

### **Report on Financial Statements and Federal Single Audit**

Please find attached our report on the City of Spokane's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the City's financial condition.

Sincerely,

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

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Spokane County  
January 1, 2013 through December 31, 2013**

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# Federal Summary

## City of Spokane Spokane County January 1, 2013 through December 31, 2013

The results of our audit of the City of Spokane are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

### ***FINANCIAL STATEMENTS***

An unmodified opinion was issued on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

#### ***Internal Control Over Financial Reporting:***

- ***Significant Deficiencies:*** We identified deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

### ***FEDERAL AWARDS***

#### ***Internal Control Over Major Programs:***

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- ***Material Weaknesses:*** We identified deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City's compliance with requirements applicable to each of its major federal programs, with the exception of the CFDA 14.218 Community Development Block Grants/Entitlement Grants Program, CFDA 14.235 Supportive Housing Program, CFDA 14.239 HOME Investment Partnerships Program, CFDA 14.267 Continuum of Care Program and CFDA 97.044 Assistance to Firefighters Grant on which we issued a qualified opinion on compliance with applicable requirements.

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

***Identification of Major Programs:***

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
14.218	CDBG - Entitlement Grants Cluster - Community Development Block Grants/Entitlement Grants
14.228	CDBG - State Administered CDBG Cluster - Community Development Block Grants/State's Program
14.235	Supportive Housing Program
14.239	HOME Investment Partnerships Program
14.267	Continuum of Care Program
14.905	Lead Hazard Reduction Demonstration Grant Program
20.205	Highway Planning and Construction Cluster - Highway Planning and Construction
66.458	Capitalization Grants for Clean Water State Revolving Funds
97.044	Assistance to Firefighters Grant

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$643,363.

The City did not qualify as a low-risk auditee under OMB Circular A-133.

# Schedule of Federal Audit Findings and Questioned Costs

**City of Spokane  
Spokane County  
January 1, 2013 through December 31, 2013**

**1. The City did not have adequate internal controls to comply with federal grant requirements for its Community Development Block Grants.**

<b>CFDA Number and Title:</b>	14.218 Community Development Block Grants/Entitlement Grant
<b>Federal Grantor Name:</b>	U.S. Department of Housing and Urban Development (HUD)
<b>Federal Award/Contract Number:</b>	B11-MC-530006 B12-MC-530006
<b>Pass-through Entity Name:</b>	NA
<b>Pass-through Award/Contract Number:</b>	NA
<b>Questioned Cost Amount:</b>	\$0

## **Description of Condition**

During 2013, the City spent \$4,274,440 in federal Community Development Block Grant funds. The City used this funding to provide housing and to expand economic opportunities for persons of low and moderate income. The City's Community Housing and Human Services Department administers the block grant program.

### Program Income

Program income is income generated from grant-related activities, such as repayments to a revolving loan fund. These repayments are treated as additional grant funding and are subject to all grant requirements. Program income must be substantially disbursed before additional cash withdrawals are made. For purposes of the program rehabilitation activities and non-rehabilitation activities can be considered separately when determining compliance with program income requirements. In addition, as program income is received it should be immediately recorded into HUD's Integrated Disbursement Information System (IDIS) for tracking.

Prior to 2013, the Department was operating under the assumption that it had prior approval from HUD to maintain a reasonable cash balance and could draw cash prior to disbursing its program income. In February of 2013 the City established a Revolving Loan Fund to separately identify its rehabilitation related activities and cash balances from those related to non-rehabilitation activities. The City also established controls to record program income into IDIS at the time that a cash draw was necessary. Then beginning in August 2013, the Department began posting program income into IDIS more frequently, no later than two weeks after it was received. However, we found that

even though the City has made improvements to the controls for monitoring the receipt and disbursement of program income, the City is still requesting cash draws prior to expending substantially all its program income. The Department made three cash draws after the Revolving Loan Fund was created totaling \$75,720 while the Department had cash balances ranging from \$283,238 to \$315,578 and 27 cash draws related to nonrehabilitation activities totaling \$1,858,821 while the Department had cash balances ranging from \$83,326 to \$324,980.

#### Cash Management

Procedures must be established to request reimbursement only for immediate needs, and as noted above, only after expending substantially all of their program income. Interest earnings on federal grant funds received that exceeds \$100 per year must be submitted promptly, but at least quarterly, to the federal grantor. The City maintains a revolving loan fund for the program and collects program income, which generates interest. We found that while some interest earnings were submitted to HUD throughout the year, City's controls were not adequate to ensure interest earnings retained by the City did not exceed the \$100 per year limit. The City retained \$501.50 in interest, which does not comply with federal regulations.

#### Subrecipient Monitoring

Recipients of federal grants are required to establish internal controls to ensure subrecipients are informed of pertinent grant regulations and restrictions and are required to monitor subrecipients to ensure that grant funds are used in accordance with federal laws and regulations. A pass-through entity is responsible for ensuring subrecipients expending \$500,000 or more in Federal awards during a fiscal year have received an audit in accordance with OMB Circular A-133.

The City's established control process does not ensure subrecipients administer federal awards in compliance with federal requirements, or that A-133 audits are performed when required. We found the Department's documentation does not provide support that adequate subrecipient monitoring occurred during 2013. As an example, one report received had no indications that it had been reviewed and two reports included grant funding (identified as state and federal) of more than \$1 million and no A-133 reports were included as part of the audit. The Department made no additional inquiries after receiving the audit reports to determine if an A-133 audit was required.

### **Cause of Condition**

#### Program Income

Department employees are responsible for the oversight and monitoring of a number of HUD grants, which complicates the process of monitoring program income. The process to evaluate all cash on hand and determine if it related to rehabilitation or nonrehabilitation activities was complicated and could not be completed by year end. The Department initially established controls to post program income to IDIS only at the time that a draw was necessary as a less labor-intensive method than requiring employees to post into IDIS daily. We consider this control weakness a material weakness.

### Cash Management

Department personnel did not properly use the tool developed to calculate the interest earnings over \$100 that should be remitted to HUD. The City received a letter from the grantor expressing its concern with the City's compliance with this requirement. Therefore, though the amount of interest retained by the City in excess of the \$100 limit was only a small amount, we consider this control weakness a significant deficiency.

### Subrecipient Monitoring

Subrecipient monitoring files could not be located or were not retained. Additionally, the responsibility for ensuring that all audit reports are obtained and reviewed was given to a new staff member who was not trained to review reports for compliance with single audit requirements. We consider this control weakness a material weakness.

## **Effect of Condition and Questioned Costs**

### Program Income

Prior to August of 2013 we could not determine when program income was received from the City's accounting records to determine if it was recorded to IDIS timely. Beginning on August 27, 2013, program income was receipted into IDIS no later than two weeks after it was received. Even after the creation of a separate Revolving Loan Fund, the Department continued to make entitlement cash draws without properly spending program income, as required by grantor regulations. This led to them having a cash balance at the end of fiscal year 2013 of \$306,733. We communicated the same condition for the year ended December 31, 2011, in an audit report dated September 18, 2012, and for the year ended December 31, 2012, in an audit report dated September 19, 2013.

### Cash Management

Since the Department did not remit all interest earnings in excess of \$100 as required, HUD was denied access to an additional \$401.50 in interest earnings.

### Subrecipient Monitoring

The Department was unable to provide monitoring evidence for two of the five subrecipients. The Department was only able to provide us four audit reports of the 14 received for review in 2013. Without proper subrecipient monitoring internal controls, the City cannot ensure subrecipients are receiving an A-133 audit when necessary.

## **Recommendation**

We recommend the Community Housing and Human Services Department:

- Continue to improve its internal controls and monitoring and comply with federal grant requirements related to program income earned ensuring it is disbursed before cash draws are made.
- Communicate with HUD regarding the disposition of its current cash balance.



- Comply with its established procedures and federal requirements for remitting interest earnings in excess of \$100.
- Establish and follow internal controls to ensure it complies with federal grant requirements related to subrecipient monitoring.

## **City's Response**

*The City has made significant efforts to improve its internal controls, monitoring and compliance with federal grant requirements since the period audited in this report. In March 2014, the City adopted a comprehensive Grants Management Policy and Procedures, which includes specific guidance relative to program income, cash management and subrecipient monitoring. This policy was distributed to staff in the department and followed up with staff training. The City is currently undertaking an intensive effort to further analyze, document and improve its systems in this area and has begun implementation of the corrective action plan as identified in this document.*

## **Auditor's Remarks**

We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

## **Applicable Laws and Regulations**

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States and Local Governments, and Nonprofit Organizations*, Subpart C, Section 300 states in part:

The auditee shall:

- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States Local Governments, and Nonprofit Organization*, Compliance Supplement 2013 Part 3, Cash Management states in part:

Interest earned by local government and Indian tribal government grantees and subgrantees on advances is required to be submitted promptly, but at least quarterly, to the Federal agency. Up to \$100 per year may be kept for administrative expenses.

Title 24 Code of Federal Regulations, Section 570.490 – Recordkeeping requirements, states in part:

(a)(3) *Integrated Disbursement and Information System (IDIS)*. The state shall make entries into IDIS in a form prescribed by HUD to accurately capture the state's accomplishment and funding data, including program income, for each program year. It is recommended that the state enter IDIS data on a quarterly basis and it is required to be entered annually.

Title 24 Code of Federal Regulations, Section 570.504 – Program Income, states in part:

(a) *Recording program income*. The receipt and expenditure of program income as defined in §570.500(a) shall be recorded as part of the financial transactions of the grant program.

(b)(2) If the recipient chooses to retain program income, that program income shall be disposed of as follows:

(i) Program income in the form of repayments to, or interest earned on, a revolving fund as defined in §570.500(b) shall be substantially disbursed from the fund before additional cash withdrawals are made from the U.S. Treasury for the same activity.

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 400, states in part:

(d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

(4) Ensure that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 500, states in part:

(a) General. The audit shall be conducted in accordance with GAGAS.

*Government Auditing Standards*, December 2011 Revision, paragraph 4.23 states:

**4.23** When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:

**.07** For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Significant deficiency. A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

## Schedule of Federal Audit Findings and Questioned Costs

**City of Spokane  
Spokane County  
January 1, 2013 through December 31, 2013**

**2. The City did not have adequate internal controls to ensure compliance with the federal grant requirements for its Supportive Housing Program.**

<b>CFDA Number and Title:</b>	14.235 Supportive Housing Program
<b>Federal Grantor Name:</b>	U.S. Department of Housing and Urban Development (HUD)
<b>Federal Award/Contract Number:</b>	NA
<b>Pass-through Entity Name:</b>	NA
<b>Pass-through Award/Contract Number:</b>	NA
<b>Questioned Cost Amount:</b>	\$0

### **Description of Condition**

During 2013 the City spent \$1,325,113 in Supportive Housing Program funds. The City used this funding to promote the development of housing and support services that assist homeless persons in the transition from homelessness to independent living. Community Housing and Human Services Department employees administer and monitor this program. The Department provides more than 90 percent of this funding to subrecipients who perform the program's primary activities.

#### Matching

The Department monitors several matching requirements defined in the Notice of Funding Availability received from HUD. Matching requirements for operating costs and support services are passed on to subrecipients. However, the Department must ensure the City provides a 20 percent cash match for funding provided for Homeless Management Information System (HMIS) expenditures.

We found the Department had adequate controls to ensure its subrecipient's matching requirements were met; however, adequate internal controls were not in place to support HMIS matching funds. The Department reported budget estimates for the funds used to meet this matching requirement and estimates were not adjusted to reflect actual costs.

#### Reporting

The Department is required to submit an Annual Performance Report to HUD for each federal grant agreement within 90 days of the end of each operating year. The Department had 27 subrecipient agreements in 2013 and each required a report to be

filed. The Department prepares these reports based on subrecipient invoices and its own tracking spreadsheets. We found that the Department's established controls were not adequate to ensure these reports were accurate when submitted. We tested seven reports and only one was accurate when originally submitted and none of the seven correct reports were submitted within the 90 day requirement. Two of the reports tested required three submissions and 140 days to correct.

#### Subrecipient Monitoring

Recipients of federal grants are required to establish internal controls to ensure subrecipients are informed of pertinent grant regulations and restrictions and are required to monitor subrecipients to ensure that grant funds are used in accordance with federal laws and regulations. A pass-through entity is responsible for ensuring subrecipients expending \$500,000 or more in Federal awards during a fiscal year have received an audit in accordance with OMB Circular A-133.

The Department's established control process does not ensure subrecipients administer federal awards in compliance with federal requirements, or that A-133 audits are performed when required. We found the Department's documentation does not provide support that adequate subrecipient monitoring occurred during 2013. As an example, three reports identified potentially unallowable activities or ineligible clients and no follow-up was conducted. In addition, the Department's largest program subrecipient receiving \$863,592 in federal funds in 2013 has not been monitored since 2011. We also found the Department did not have internal controls in place to ensure all subrecipient audit reports were obtained and effectively reviewed.

### **Cause of Condition**

#### Matching

The Department was aware of the HMIS matching requirement, but did not reassign responsibility to tracking actual expenditures when the accountant performing this task left the Department. Controls were not maintained to ensure budget estimates were adjusted to actual HMIS expenditures in the reports. We consider this control weakness a significant deficiency.

#### Reporting

The Department's established controls only ensured a report was prepared and submitted within the 90 day deadline. These controls did not ensure reported amounts were supported by the underlying grant records as evidenced by HUD's repeated requests for resubmissions after its review. We consider this control weakness a material weakness.

#### Subrecipient Monitoring

The Department's established controls required only limited subrecipient monitoring or follow-up if concerns were noted. Additionally, the responsibility for ensuring that all audit reports were obtained and reviewed was given to a new staff member who was not trained to review reports for compliance with single audit requirements. We consider this control weakness a material weakness.

## Effect of Condition and Questioned Costs

### Matching

The HMIS match expenditures of \$20,668 were originally reported based on budget estimates. Without proper controls to track match actual expenditures the Department cannot ensure actual expenditures meet or exceed budget estimates. We were unable to determine if actual HMIS matching expenditures supported the amounts reported.

### Reporting

The HUD did not receive timely, accurate program operating information necessary to monitor and evaluate the grant's financial activities.

### Subrecipient Monitoring

Concerns or deficiencies in the Department's subrecipient monitoring practices were noted in all four files selected for review. The Department was only able to provide us audit reports for one of 11 subrecipients in 2013. Without proper subrecipient monitoring internal controls, the Department cannot ensure subrecipients are administering grant funding in compliance with grant requirements or receiving an A-133 audit when necessary.

## Recommendation

We recommend the Community Housing and Human Services Department:

- Establish and follow internal controls to effectively monitor and report all matching activities.
- Improve established controls to ensure required reports are accurately compiled, reviewed and submitted in a timely manner.
- Establish and follow internal controls to ensure it complies with federal grant requirements related to subrecipient monitoring.

## City's Response

*The City has made significant efforts to improve its internal controls, monitoring and compliance with federal grant requirements since the period audited in this report. In January 2014, the City created a central Grants Management and Financial Assistance Department, which provides compliance oversight and technical assistance to all City departments and personnel managing grants. In March 2014, the City adopted a comprehensive Grants Management Policy and Procedures, which includes specific guidance relative to matching, reporting and subrecipient monitoring. This policy was distributed to staff in the department and followed up with staff training. The City is currently undertaking an intensive effort to further analyze, document and improve its systems in this area and has begun implementation of the corrective action plan as identified in this document.*

## Auditor's Remarks

We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

## Applicable Laws and Regulations

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States and Local Governments, and Nonprofit Organizations*, Subpart C, Section 300 states in part:

The auditee shall:

- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Notice of Funding Availability (NOFA) Docket No. FR-5500-N-34, OMB Approval number 2506-0112, states in part;

**D. Matching:** Project applicants must meet the match requirements for SHP and S+C programs. For SHP, match requirements must be met by funds used to cover costs associated with eligible activities. The only exceptions to the SHP match requirement are leasing and administrative costs. Project applicants for SHP projects can request no more than 80 percent of the total supportive services costs in a project in their application for funding. Project applicants must match the remaining 20 percent of the total costs with cash match from other eligible sources. All matching funds must be used for eligible service costs identified on the supportive services budget in the application and/or the technical submission. HUD can pay no more than 75 percent of the total budget for operating a supportive housing project. Agencies must provide at least a 25 percent cash match of the total annual operating costs. In addition, for all SHP funding for HMIS, applicants must provide a 20 percent cash match. All matching funds must be used for eligible costs identified in the project application budget, the grant agreement, and in the technical submission. HUD has developed cash match calculators to assist project applicants in determining the required cash match for requested SHP funds. The calculators are available online under the *e-snaps* Resources section of the HUD HRE at <http://www.hudhre.info/esnaps>.

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States Local Governments, and Nonprofit Organization*, Compliance Supplement 2013 Part 4-14.235, Reporting, states in part:

1.(d) HUD-40118, *Annual Progress Report (OMB No. 2506-0145)* – This report is due from each grantee 90 days after the end of each operating year. Separate reports are required for each grant received (24 CFR section 583.300(g)).

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 400, states in part:

(d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

(4) Ensure that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 500, states in part:

(b) General. The audit shall be conducted in accordance with GAGAS.

*Government Auditing Standards*, December 2011 Revision, paragraph 4.23 states:

**4.23** When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.



The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:

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**Material weakness.** A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

**Significant deficiency.** A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

## Schedule of Federal Audit Findings and Questioned Costs

**City of Spokane  
Spokane County  
January 1, 2013 through December 31, 2013**

**3. The City did not have adequate internal controls to comply with federal grant requirements for its Home Investment Partnership Program Grant.**

<b>CFDA Number and Title:</b>	14.239 Home Investment Partnership Program
<b>Federal Grantor Name:</b>	U.S. Department of Housing and Urban Development (HUD)
	M09-MC-530201
<b>Federal Award/Contract Number:</b>	M10-MC-530201
	M11-MC-530201
	M12-MC-530201
<b>Pass-through Entity Name:</b>	NA
<b>Pass-through Award/Contract Number:</b>	NA
<b>Questioned Cost Amount:</b>	\$0

### **Description of Condition**

During 2013, the City spent \$1,949,761 in federal Home Investment Partnership Program funds. The City used this funding to expand the supply of affordable housing for persons with low or very low income. The Community Housing and Human Services Department administers the grant program.

#### Program Income

Program income is income generated from grant-related activities, such as repayments to a revolving loan fund. These repayments are treated as additional grant funding and are subject to all grant requirements. Program income must be substantially disbursed before additional cash withdrawals are made. As program income is received it should be immediately recorded into HUD's Integrated Disbursement Information System (IDIS) for tracking.

Prior to 2013 the Department was operating under the assumption that it had prior approval from HUD to maintain a reasonable cash balance and could draw cash prior to disbursing its program income. Prior to 2013, the City established controls to record program income into IDIS at the time a cash draw was necessary. Then beginning in August 2013 the Department began posting program income into IDIS more frequently, no later than two weeks after it was received. However, we found that even though the City has made improvements to the controls for monitoring the receipt and disbursement of program income, the City is still requesting cash draws prior to expending

substantially all its program income. The Department made 21 entitlement draws throughout the year totaling \$803,458 while the Department had a cash balance ranging from \$56,084 to \$241,175.

#### Cash Management

Procedures must be established to request reimbursement only for immediate needs, and as above noted, only after expending substantially all of their program income. Interest earnings on federal grant funds received that exceeds \$100 per year must be submitted promptly, but at least quarterly, to the federal grantor promptly. We found that while some interest earnings were submitted to HUD throughout the year, controls were not adequate to ensure interest earnings retained by the City did not exceed the \$100 per year limit. The City retained \$1,679.46 in interest which does not comply with federal regulations.

### **Cause of Condition**

#### Program Income

Department employees are responsible for the oversight and monitoring of a number of HUD grants which complicates the process of monitoring program income. The Department initially established controls to post program income only at the time that a draw was necessary as a less labor-intensive method than requiring employees to post into IDIS daily. Department employees have improved controls to a timelier recording of program income into the IDIS system, but still work under the assumption that not all program income received has to be expended before a cash draw is made which has not been approved by the grantor. We consider this control weakness a material weakness.

#### Cash Management

Department personnel did not properly use the tool developed to calculate the interest earnings over \$100 that should be remitted to HUD. The City received a letter from the grantor expressing its concerns with the City's compliance with this requirement. Therefore, though the amount of interest retained by the City in excess of the \$100 limit was only a small amount, we consider this control weakness a significant deficiency.

### **Effect of Condition and Questioned Costs**

#### Program Income

Prior to August 2013 we could not determine when program income was received into the City's accounting system to determine if it was posted to IDIS timely. Beginning on August 27, 2013, program income was receipted into IDIS no later than two weeks after it was received. The Department made entitlement cash draws without properly spending program income as required by grantor regulations. This led to them having a cash balance at the end of fiscal year 2013 of \$98,673.50.

#### Cash Management

Since the Department did not remit all interest in excess of \$100 as required, HUD was denied access to an additional \$1,579.46 in interest earnings.

## Recommendation

We recommend the Community Housing and Human Services Department:

- Improve its internal controls and monitoring and comply with federal grant requirements related to program income earned ensuring it is disbursed before cash draws are made.
- Communicate with HUD regarding the disposition of its current cash balance.
- Comply with its established procedures and federal requirements for remitting interest earnings in excess of \$100.

## City's Response

*The City has made significant efforts to improve its internal controls, monitoring and compliance with federal grant requirements since the period audited in this report. In March 2014, the City adopted a comprehensive Grants Management Policy and Procedures, which includes specific guidance relative to program income and cash management and subrecipient monitoring. This policy was distributed to staff in the department and followed up with staff training. The City is currently undertaking an intensive effort to further analyze, document and improve its systems in this area and has begun implementation of the corrective action plan as identified in this document.*

## Auditor's Remarks

We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

## Applicable Laws and Regulations

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States and Local Governments, and Nonprofit Organizations*, Subpart C, Section 300 states in part:

The auditee shall:

- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States Local Governments, and Nonprofit Organization*, Compliance Supplement 2013 Part 3, Cash Management states in part:

Interest earned by local government and Indian tribal government grantees and subgrantees on advances is required to be submitted promptly, but at least quarterly, to the Federal agency. Up to \$100 per year may be kept for administrative expenses.

Title 24 Code of Federal Regulations, Section 570.490 – Record keeping requirements, states in part:

(3) *Integrated Disbursement and Information System (IDIS)*. The state shall make entries into IDIS in a form prescribed by HUD to accurately capture the state's accomplishment and funding data, including program income, for each program year. It is recommended that the state enter IDIS data on a quarterly basis and it is required to be entered annually.

Title 24 Code of Federal Regulations, Section 570.504 – Program Income, states in part:

(b) *Recording program income*. The receipt and expenditure of program income as defined in §570.500(a) shall be recorded as part of the financial transactions of the grant program.

(2) If the recipient chooses to retain program income, that program income shall be disposed of as follows:

(i) Program income in the form of repayments to, or interest earned on, a revolving fund as defined in §570.500(b) shall be substantially disbursed from the fund before additional cash withdrawals are made from the U.S. Treasury for the same activity.

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 500, states in part:

(c) The audit shall be conducted in accordance with GAGAS.

*Government Auditing Standards*, December 2011 Revision, paragraph 4.23 states:

**4.23** When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:

**.07** For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

**Material weakness.** A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

**Significant deficiency.** A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

## Schedule of Federal Audit Findings and Questioned Costs

**City of Spokane  
Spokane County  
January 1, 2013 through December 31, 2013**

**4. The City did not have adequate internal controls to ensure compliance with federal grant requirements for its Continuum of Care Program.**

<b>CFDA Number and Title:</b>	14.267 Continuum of Care Program
<b>Federal Grantor Name:</b>	U.S. Department of Housing and Urban Development (HUD)
<b>Federal Award/Contract Number:</b>	NA
<b>Pass-through Entity Name:</b>	NA
<b>Pass-through Award/Contract Number:</b>	NA
<b>Questioned Cost Amount:</b>	\$0

### **Description of Condition**

During 2013 the City spent \$1,151,308 in Continuum of Care Program funds. The City used this funding to assist people experiencing homelessness. The City's Community Housing and Human Services Department employees administer and monitor this program. The Department provided more than 90 percent of this funding to 33 subrecipients who performed the primary activities of this program.

#### Subrecipient Monitoring

Recipients of federal grants are required to establish internal controls to ensure subrecipients are informed of pertinent grant award information and the requirements imposed to ensure subrecipients will spend grant funds for allowable purposes.

One vital piece of the award information is the Code of Federal Domestic Assistance (CFDA) number. This number identifies each federal program and is intended to improve coordination and communication between the Federal governments and grant award recipients. The financial and nonfinancial information associated with each CFDA number identifies the specific objectives of the funding; how the awards should be administered; and the expected benefits to be received by those the funding assists.

The Department's established control process did not ensure subrecipient award agreements included accurate award information. In all eight of the agreements tested, the Department provided an incorrect CFDA number. This error also contributed to the Department's noncompliance with reporting requirements identified below.

### Reporting

The Federal Funding Accountability and Transparency Act of 2006 requires primary and cooperative agreement grant recipients to register and report subawards to subrecipients of \$25,000 or more in the Federal Funding and Transparency Subaward Reporting System (FSRS). Each subaward must be reported by the end of the month following the month the award was made under its primary grant award number.

During 2013 the Department awarded \$2,765,845 in HUD grant funds through subaward agreements for the program. We tested eight of the subrecipients reported in the FSRS system and noted that in all instances the reports were not submitted timely and the wrong grant identification number was used.

## **Cause of Condition**

### Subrecipient Monitoring

Controls were not established to ensure the accuracy of subaward information included in the written agreements. We consider this control weakness a significant deficiency.

### Reporting

The Department employee assigned the responsibility of reporting under the Act did not understand how to properly access information or use the FSRS system and did not seek clarification or guidance from Department supervisors or HUD. We consider this control weakness a material weakness.

## **Effect of Condition and Questioned Costs**

### Subrecipient Monitoring

Providing an incorrect CFDA number to program subrecipients increases the likelihood that the funds will not be administered and spent for the intended program purposes and that assistance may not be provided to eligible program participants.

### Reporting

When the employee could not locate the 2013 primary award number, he reported all 2013 subawards under the 2012 primary award number. The 2012 award number used was for a different federal program (Supportive Housing) as the award number include in the subawards was incorrect.

All subrecipient funds were awarded in July and August of 2013 and information was not reported in FSRS until January 15, 2014, up to five months late. By not correctly and timely submitting the information required by the Act, the federal government's ability to ensure transparency and accountability of federal spending was diminished.



## Recommendation

We recommend the Community Housing and Human Services Department:

- Establish and follow internal controls to ensure it complies with federal grant requirements related to providing accurate award information to subrecipients.
- Improve established controls to ensure required reports are accurately compiled, reviewed and submitted in a timely manner.

## City's Response

*The City has made significant efforts to improve its internal controls, monitoring and compliance with federal grant requirements since the period audited in this report. In March 2014, the City adopted a comprehensive Grants Management Policy and Procedures, which includes specific guidance relative to subrecipient monitoring and reporting. This policy was distributed to staff in the department and followed up with staff training. The City is currently undertaking an intensive effort to further analyze, document and improve its systems in this area and has begun implementation of the corrective action plan as identified in this document.*

## Auditor's Remarks

We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

## Applicable Laws and Regulations

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States and Local Governments, and Nonprofit Organizations*, Subpart C, Section 300 states in part:

The auditee shall:

- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Appendix A to Part 170—Award term I. Reporting Subawards and Executive Compensation.

a. Reporting of first-tier subawards.

- 1. Applicability. Unless you are exempt as provided in paragraph d. of this award term, you must report each action that obligates

\$25,000 or more in Federal funds that does not include Recovery funds (as defined in section 1512(a)(2) of the American Recovery and Reinvestment Act of 2009, Pub. L. 111-5) for a subaward to an entity (see definitions in paragraph e. of this award term).

2. Where and when to report.

i. You must report each obligating action described in paragraph a.1. of this award term to <http://www.fsrs.gov>.

ii. For subaward information, report no later than the end of the month following the month in which the obligation was made. (For example, if the obligation was made on November 7, 2010, the obligation must be reported by no later than December 31, 2010.)

3. What to report. You must report the information about each obligating action that the submission instructions posted at <http://www.fsrs.gov> specify.

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States Local Governments, and Nonprofit Organization*, Compliance Supplement 2013 Part 3, Subrecipient Monitoring states in part:

A pass-through entity is responsible for:

- Determining Subrecipient Eligibility – In addition to any programmatic eligibility criteria under E, “Eligibility for Subrecipients,” for subawards made on or after October 1, 2010, determining whether an applicant for a non-ARRA subaward has provided a Dun and Bradstreet Data Universal Numbering System (DUNS) number as part of its subaward application or, if not, before award (2 CFR section 25.110 and Appendix A to 2 CFR part 25).

- Central Contractor Registration (CCR) – For ARRA subawards, identifying to first-tier subrecipients the requirement to register in the Central Contractor Registration, including obtaining a DUNS number, and maintaining the currency of that information (Section 1512(h) of ARRA, and 2 CFR section 176.50(c)). This requirement pertains to the ability to report pursuant to Section 1512 of ARRA and is not a pre-award eligibility requirement. Note that subrecipients of non-ARRA funds are not required to register in CCR.

- Award Identification – At the time of the subaward, identifying to the subrecipient the Federal award information (i.e., CFDA title and number; award name and number; if the award is research and

development; and name of Federal awarding agency) and applicable compliance requirements. For ARRA subawards, identifying to the subrecipient the amount of ARRA funds provided by the subaward and advising the subrecipient of the requirement to identify ARRA funds in the Schedule of Expenditures of Federal Awards (SEFA) and the SF-SAC (see also N, Special Tests and Provisions in this Part). . . .

Ensuring Accountability of For-Profit Subrecipients – Awards also may be passed through to for-profit entities. For-profit subrecipients are accountable to the pass-through entity for the use of Federal funds provided. Because for-profit subrecipients are not subject to the audit requirements of OMB Circular A-133, pass-through entities are responsible for establishing requirements, as needed, to ensure for-profit subrecipient accountability for the use of funds.

- Pass-Through Entity Impact – Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 500, states in part:

(d) General. The audit shall be conducted in accordance with GAGAS.

*Government Auditing Standards*, December 2011 Revision, paragraph 4.23 states:

**4.23** When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:

**.07** For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Significant deficiency. A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

## Schedule of Federal Audit Findings and Questioned Costs

**City of Spokane  
Spokane County  
January 1, 2013 through December 31, 2013**

**5. The City did not have adequate internal controls to ensure compliance with federal grant requirements for its Lead Hazard Reduction Grant.**

<b>CFDA Number and Title:</b>	14.905 – Lead Hazard Reduction Demonstration Grant
<b>Federal Grantor Name:</b>	U.S. Department of Housing and Urban Development (HUD)
<b>Federal Award/Contract Number:</b>	WA LHD 0239-12
<b>Pass-through Entity Name:</b>	NA
<b>Pass-through Award/Contract Number:</b>	NA
<b>Questioned Cost Amount:</b>	\$0

### **Description of Condition**

During 2013, the City spent \$598,606 in federal Lead Hazard Reduction Demonstration Grant funds. The City used this funding to evaluate and control lead-based hazards in low-income residential housing. The City's Community Housing and Human Services Department employees administer and monitor the program.

Federal awards may be received and spent as either a subrecipient or in a vendor capacity. A subrecipient is a non-Federal entity that expends awards to carry out a Federal program, but does not include an individual that benefits from the program. A vendor means a dealer, distributor, merchant, or other seller providing goods or services that are required for the conduct of a Federal program. For the purposes of this grant, the City is the recipient of the funding with a vendor arrangement with a property management company that receives funding and assists in the administering the program.

#### Eligibility

The grant agreement requires specific and complicated eligibility requirements to determine property owners and individuals are eligible to receive financial assistance and services under the program. Various attributes of each family and housing unit applying for funding must be evaluated such as:

- Type of housing (privately-owned, owner-occupied, rental housing)
- Family income

- Percentage of units in multiple unit buildings occupied by families at certain income levels
- Percentage of units in multiple unit buildings occupied by a child under the age of six.
- The year the housing was constructed

The property management company assigns a program manager to perform eligibility determinations, hazard assessments and housing renovations and received funding for its services. The City's Community Housing and Human Services Department relied on the company's program manager to determine applicant eligibility without any review, monitoring or oversight. In a vendor relationship final applicant eligibility determinations are the responsibility of the grant recipient so City Department personnel should have been involved in the process. We found that no review of the vendor's eligibility process was performed by Department employees during 2013.

#### Matching

The City is required to match 25 percent of total federal program funds over a three year grant period which ends on June 30, 2015. Acceptable matching funds typically include allowable costs or in-kind contributions necessary and reasonable to accomplish the programs objectives that are verifiable to the entity's records and not included as contributions for any other federally assisted program.

The Office of the Inspector General issued a report dated April 26, 2013 that concluded the City did not maintain adequate records of its matching contributions for the reporting period ending June 30, 2012. Consequently, HUD had no assurance that the City contributed all pledged matching funds. For this reason, we determined the matching requirement direct and material as there was a significant risk that the matching amount reported on the 2013 Federal Financial Reports (SF425) could be materially inaccurate due to a lack of established internal controls. We found that the Department did not have a control in place to ensure matching contributions reported to the grantor were from an acceptable source or properly supported by the Department's records. Of the \$421,778 of matching funds reported on HUD reports in 2013, the Grants Management and Financial Assistance Department later determined only \$213,906 were appropriate.

### **Cause of Condition**

#### Eligibility

Prior to 2013, the City Planner would spot check applications and eligibility documentation and regularly communicated with the property management company by email and telephone. In 2013 eligibility determinations made by the program manager were not reviewed by Department staff as required in a vendor relationship. We consider this control weakness to be a material weakness.

### Matching

Department staff did not have an appropriate understanding of the allowable matching cost sources and used cost savings from using a less expensive service provider and estimated and unallowable costs that could not be supported as matching costs. We consider this control weakness to be material weaknesses.

## **Effect of Condition and Questioned Costs**

### Eligibility

By allowing the management company's program manager to make eligibility determinations without review, the Department is unable to ensure eligibility determinations were accurate and grant funding was provided to only eligible property owners and individuals. We reviewed the eligibility determinations performed by the property management company for eight of the 25 projects completed during 2013 and found no noncompliance with the grant's eligibility requirements; therefore, we are not questioning any costs.

### Matching

During 2013 the Department reported ineligible match funds of approximately \$208,000 to the grantor. We verified that the Department revised its matching cost calculations for the current grant period and collected verifiable complete records to support its matching costs. The Department corrected the reporting of its matching costs in March 2014.

## **Recommendation**

We recommend the Community Housing and Human Services Department establish and follow internal controls that ensure:

- All vendor activities, including eligibility determinations, made by the property management company are adequately reviewed and monitored.
- All matching funds are from an allowable source and supported by complete and verifiable records.

## **City's Response**

*As indicated in the Auditor's report, the City began reviewing its internal controls specific to the Lead grant in late 2013. This review included a comprehensive review completed by the City's new Grants Management and Financial Assistance Department of the match tracking and reporting. The City identified the over-reporting error on its matching funds and subsequently notified HUD and corrected its financial reports prior to the Single Audit even beginning. The Grants Management Department provided technical assistance and training to the program manager and continues to review the financial reports on this program as provided in the Grants Management Policy and Procedures. The program manager has also performed all final eligibility determinations in 2014.*

## Auditor's Remarks

We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

## Applicable Laws and Regulations

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, Subpart C, Section 300 states in part:

The auditee shall:

- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 105 Definitions, states in part:

Subrecipient means a non-Federal entity that expends Federal awards received from a pass-through entity to carry out a Federal program, but does not include an individual that is a beneficiary of such a program. A subrecipient may also be a recipient of other Federal awards directly from a Federal awarding agency.

Vendor means a dealer, distributor, merchant, or other seller providing goods or services that are required for the conduct of a Federal program. These goods or services may be for an organization's own use or for the use of beneficiaries of the Federal program.

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 210 Subrecipient and vendor determinations, states in part:

(b) Federal award. Characteristics indicative of a Federal award received by a subrecipient are when the organization:

- (1) Determines who is eligible to receive what Federal financial assistance;
- (2) Has its performance measured against whether the objectives of the Federal program are met;
- (3) Has responsibility for programmatic decision making;



(4) Has responsibility for adherence to applicable Federal program compliance requirements; and

(5) Uses the Federal funds to carry out a program of the organization as compared to providing goods or services for a program of the pass-through entity.

(f) Compliance responsibility for vendors. In most cases, the auditee's compliance responsibility for vendors is only to ensure that the procurement, receipt, and payment for goods and services comply with laws, regulations, and the provisions of contracts or grant agreements. Program compliance requirements normally do not pass through to vendors. However, the auditee is responsible for ensuring compliance for vendor transactions which are structured such that the vendor is responsible for program compliance or the vendor's records must be reviewed to determine program compliance. Also, when these vendor transactions relate to a major program, the scope of the audit shall include determining whether these transactions are in compliance with laws, regulations, and the provisions of contracts or grant agreements.

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States Local Governments, and Nonprofit Organization*, Compliance Supplement 2013 Part 3, Matching, Level of Effort, Earmarking, states in part:

The following is a list of the basic criteria for acceptable matching:

- Are verifiable from the non-Federal entity's records.
- Are not included as contributions for any other federally assisted project or program, unless specifically allowed by Federal program laws and regulations.
- Are necessary and reasonable for proper and efficient accomplishment of project or program objectives.
- Are allowed under the applicable cost principles.
- Are not paid by the Federal Government under another award, except where authorized by Federal statute to be allowable for cost sharing or matching.
- Are provided for in the approved budget when required by the Federal awarding agency.
- Conform to other applicable provisions of the A-102 Common Rule and OMB Circular A-110 and the laws, regulations, and provisions of contract or grant agreements applicable to the program.

*Matching* or cost sharing includes requirements to provide contributions (usually non-Federal) of a specified amount or percentage to match Federal awards. Matching may be in the form of allowable costs incurred or in-kind contributions (including third-party in-kind contributions).

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 500, states in part:

(e) The audit shall be conducted in accordance with GAGAS.

*Government Auditing Standards*, December 2011 Revision, paragraph 4.23 states:

**4.23** When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:

**.07** For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Significant deficiency. A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

## Schedule of Federal Audit Findings and Questioned Costs

**City of Spokane  
Spokane County  
January 1, 2013 through December 31, 2013**

**6. The City did not have adequate internal controls to comply with federal grant requirements for its Assistance to Firefighters Grant.**

<b>CFDA Number and Title:</b>	97.044 Assistance to Firefighters Grant
<b>Federal Grantor Name:</b>	U.S. Department of Homeland Security
<b>Federal Award/Contract Number:</b>	EMW-2011-FO-06717
	EMW-2012-FP-01278
<b>Pass-through Entity Name:</b>	NA
<b>Pass-through Award/Contract Number:</b>	NA
<b>Questioned Cost Amount:</b>	\$0

### **Description of Condition**

During 2013, the City spent \$235,820 in federal Assistance to Firefighters Grant funds. The City used this funding to protect the health and safety of the public and firefighting personnel against fire and fire-related hazards. The City's Fire Department administers this grant.

#### Procurement

Federal regulations require cities to follow state bid laws and their own policies and procedures provided they comply with federal guidelines. All procurement transactions should be conducted in a manner providing full and open competition. If a noncompetitive method is used the grant recipient should be able to demonstrate why no other vendors could provide the same goods or services. Restrictions cannot be made for "brand name" products instead of using "an equal" product that is offered.

It is the City's policy that any purchase over \$46,500 requires formal bidding. The policy also allows for a "sole source" exception to competitive bidding when the purchase is clearly and legitimately limited to a single source of supply and the department determines competition between potential vendors is not possible. Sole source purchases over \$46,500 must be placed on the City Council agenda after approval by the Department head and representatives of the Finance, Purchasing, Legal departments and a representative for the Mayor.

The Fire Department used grant funding to make two purchases in excess of \$46,500 totaling \$170,864. One purchase of \$50,324 for key lock boxes, to allow access to businesses and fire hydrants in case of a fire, was made using the sole source exception. Although the Department followed the City's policies and procedures for the purchase

and specifically identified the vendor in its grant application, this does not relieve the Department from demonstrating that only one vendor could provide the lock boxes when the sole source exception was used.

#### Suspension/Debarment

Federal requirements prohibit grant recipients from contracting with or making subawards to vendors who have been suspended or debarred from doing business with the federal government. The Department is required to verify that all vendors receiving \$25,000 or more in federal funds have not been suspended or debarred. The Department can obtain a written certification from the vendor or insert a clause into the contract where the vendor states it is not suspended or debarred. Alternatively, the Department may review the federal Excluded Parties List (EPLS) issued by the U.S. General Services Administration. This requirement must be met prior to entering into a contract with the vendor.

The Department used the purchase order process for expenditures on this grant. The Department awarded two vendors more than \$25,000 and did not obtain a written certification or review EPLS to determine they were not suspended or debarred prior to making the awards.

### **Cause of Condition**

#### Procurement

The Department felt that since the current lock boxes used were obsolete and no longer supported by the vendor and the majority of business owners in the City limits used the lockbox system provided by the named vendor, a sole source exception was justified. However, restricting completion by specifying a brand name violates federal requirements. We consider this control weakness a material weakness.

#### Suspension/Debarment

The Department was aware of the requirement but use of the purchase order process did not ensure established controls were followed prior to making the awards. We consider this control weakness a material weakness.

### **Effect of Condition and Questioned Costs**

#### Procurement

The Department paid one vendor \$50,234 for lock boxes and did allow other vendors to participate in a competitive procurement process or ensure this vendor had the most competitive price prior to making the purchase. The Department may be required to return funds to the grantor if a competitive process found an alternative source for the product from a responsible bidder at a lower cost, however, we are not questioning these costs.

### Suspension/Debarment

The Department paid two vendors a total of \$170,864 in 2013 did not verify whether the vendor was suspended or debarred until February 2014. Payments on contracts to suspended or debarred vendors would be unallowable and cause the Department to repay the funding to the grantor. We were able to verify the vendors had not been suspended or debarred; therefore we are not questioning costs for these payments.

### **Recommendation**

We recommend the City's Fire Department establish and follow internal controls to ensure:

- Purchases are made in a competitive manner in accordance with federal requirements and City policy.
- Vendors are not suspended or debarred prior to any payments being made.

### **City's Response**

*The City's Fire Department did follow City purchasing procedures in 2013 as identified in the audit finding. In March 2014, the City adopted a comprehensive Grants Management Policy and Procedure, which includes more specific guidance relative to procurement under federal grants. The Fire Department has implemented new internal controls as identified in the corrective action plan to ensure compliance with the policy and federal purchasing requirements.*

### **Auditor's Remarks**

We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

### **Applicable Laws and Regulations**

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States and Local Governments, and Nonprofit Organizations*, Subpart C, Section 300 states in part:

The auditee shall:

- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Title 44 Code of Federal Regulations, Section 152.7 states in part:

(c) All grantees must follow their own established procurement process when buying anything with Federal grant funds (as provided in 44 CFR 13.36). If the grantee does not have an established procurement process, they must seek a minimum of two bids for any acquisition.

Title 44 Code of Federal Regulations, Section 13.36 Procurement states in part:

(c) *Competition.* (1) All procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of section 13.36. Some of the situations considered to be restrictive of competition include but are not limited to:

(i) Placing unreasonable requirements on firms in order for them to qualify to do business,

(ii) Requiring unnecessary experience and excessive bonding,

(iii) Noncompetitive pricing practices between firms or between affiliated companies,

(iv) Noncompetitive awards to consultants that are on retainer contracts,

(v) Organizational conflicts of interest,

(vi) Specifying only a “brand name” product instead of allowing “an equal” product to be offered and describing the performance of other relevant requirements of the procurement, and

(vii) Any arbitrary action in the procurement process.

(2) Grantees and subgrantees will conduct procurements in a manner that prohibits the use of statutorily or administratively imposed in-State or local geographical preferences in the evaluation of bids or proposals, except in those cases where applicable Federal statutes expressly mandate or encourage geographic preference. Nothing in this section preempts State licensing laws. When contracting for architectural and engineering (A/E) services, geographic location may be a selection criteria provided its application leaves an appropriate number of qualified firms, given the nature and size of the project, to compete for the contract.

(3) Grantees will have written selection procedures for procurement transactions. These procedures will ensure that all solicitations:

(i) Incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured.

Such description shall not, in competitive procurements, contain features which unduly restrict competition. The description may include a statement of the qualitative nature of the material, product or service to be procured, and when necessary, shall set forth those minimum essential characteristics and standards to which it must conform if it is to satisfy its intended use. Detailed product specifications should be avoided if at all possible. When it is impractical or uneconomical to make a clear and accurate description of the technical requirements, a "brand name or equal" description may be used as a means to define the performance or other salient requirements of procurement. The specific features of the named brand which must be met by offerors shall be clearly stated; and

(ii) Identify all requirements which the offerors must fulfill and all other factors to be used in evaluating bids or proposals.

(4) Grantees and subgrantees will ensure that all prequalified lists of persons, firms, or products which are used in acquiring goods and services are current and include enough qualified sources to ensure maximum open and free competition. Also, grantees and subgrantees will not preclude potential bidders from qualifying during the solicitation period.

(d) *Methods of procurement to be followed:*

(1) *Procurement by small purchase procedures.* Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

(2) *Procurement by sealed bids* (formal advertising). Bids are publicly solicited and a firm-fixed-price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, conforming to all the material terms and conditions of the invitation for bids, is the lowest in price. The sealed bid method is the preferred method for procuring construction, if the conditions in §13.36(d)(2)(i) apply.

(i) In order for sealed bidding to be feasible, the following conditions should be present:

(A) A complete, adequate, and realistic specification or purchase description is available;

(B) Two or more responsible bidders are willing and able to compete effectively and for the business; and

(C) The procurement lends itself to a firm fixed price contract and the selection of the successful bidder can be made principally on the basis of price.

(ii) If sealed bids are used, the following requirements apply:

(A) The invitation for bids will be publicly advertised and bids shall be solicited from an adequate number of known suppliers, providing them sufficient time prior to the date set for opening the bids;

(B) The invitation for bids, which will include any specifications and pertinent attachments, shall define the items or services in order for the bidder to properly respond;

(C) All bids will be publicly opened at the time and place prescribed in the invitation for bids;

(D) A firm fixed-price contract award will be made in writing to the lowest responsive and responsible bidder. Where specified in bidding documents, factors such as discounts, transportation cost, and life cycle costs shall be considered in determining which bid is lowest. Payment discounts will only be used to determine the low bid when prior experience indicates that such discounts are usually taken advantage of; and

(E) Any or all bids may be rejected if there is a sound documented reason.

(3) Procurement by *competitive proposals*. The technique of competitive proposals is normally conducted with more than one source submitting an offer, and either a fixed-price or cost-reimbursement type contract is awarded. It is generally used when conditions are not appropriate for the use of sealed bids. If this method is used, the following requirements apply:

(i) Requests for proposals will be publicized and identify all evaluation factors and their relative importance. Any



response to publicized requests for proposals shall be honored to the maximum extent practical;

(ii) Proposals will be solicited from an adequate number of qualified sources;

(iii) Grantees and subgrantees will have a method for conducting technical evaluations of the proposals received and for selecting awardees;

(iv) Awards will be made to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered; and

(v) Grantees and subgrantees may use competitive proposal procedures for qualifications-based procurement of architectural/engineering (A/E) professional services whereby competitors' qualifications are evaluated and the most qualified competitor is selected, subject to negotiation of fair and reasonable compensation. The method, where price is not used as a selection factor, can only be used in procurement of A/E professional services. It cannot be used to purchase other types of services though A/E firms are a potential source to perform the proposed effort.

(4) Procurement by *noncompetitive proposals* is procurement through solicitation of a proposal from only one source, or after solicitation of a number of sources, competition is determined inadequate.

(i) Procurement by noncompetitive proposals may be used only when the award of a contract is infeasible under small purchase procedures, sealed bids or competitive proposals and one of the following circumstances applies:

(A) The item is available only from a single source;

(B) The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation;

(C) The awarding agency authorizes noncompetitive proposals; or

(D) After solicitation of a number of sources, competition is determined inadequate.

(ii) Cost analysis, i.e., verifying the proposed cost data, the projections of the data, and the evaluation of the specific elements of costs and profits, is required.

(iii) Grantees and subgrantees may be required to submit the proposed procurement to the awarding agency for pre-award review in accordance with paragraph (g) of this section.

Title 2, Code of Federal Regulations, Section 180.300 – What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the EPLS; or
- (b) Collecting a certification from that person if allowed by this rule; or
- (c) Adding a clause or condition to the covered transaction with that person.

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 500, states in part:

- (f) The audit shall be conducted in accordance with GAGAS.

*Government Auditing Standards*, December 2011 Revision, paragraph 4.23 states:

**4.23** When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:

**.07** For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Significant deficiency. A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

## Schedule of Audit Findings and Responses

### City of Spokane Spokane County January 1, 2013 through December 31, 2013

#### 7. The City's internal controls over financial statement preparation are inadequate to ensure accurate reporting.

##### Background

City management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified deficiencies in internal controls that could adversely affect the City's ability to produce reliable financial statements.

##### Description of Condition

Our audit identified the following deficiencies in internal controls that, when taken together, represent a significant deficiency:

##### Financial Statement Preparation

The City's accounting system uses a complicated account code structure that must be converted to the *Budget Accounting and Reporting System* (BARS) manual structure prescribed for reporting purposes. The City also prepares its financial statements manually using spreadsheets and word processing programs that are not integrated into its computerized accounting system. Fund accountants generate reports that summarize and classify individual accounts into financial statement reporting line items for each fund. These fund level statements are used to prepare the Government-wide statements. The monitoring and review controls used to determine the accuracy of the account code conversions and spreadsheet formulas used to generate financial reports are not effective. We found numerous errors in the proper classification of assets, liabilities and expenditures in the City's financial statements initially presented for audit.

##### Capital Assets

The City has a standardized practice for recording capital assets; however, it does not address construction activity. The monitoring and reporting process for construction-in-progress developed by each individual fund accountant was not effective. We found completed construction of capital assets that had been placed in service at least nine years before the assets were appropriately reported in the accounting records and financial statements.

## **Cause of Condition**

### Financial Statement Preparation

The City's method of compiling the financial information for reporting purposes is complex and the City placed an undue amount of reliance on the accuracy of the spreadsheet formulas to provide assurance that its financial statements were accurate. While management is knowledgeable of financial reporting requirements and numerous accountants perform various levels of review to ensure accurate financial reporting, these reviews are not effective in identifying material errors.

### Capital Assets:

Without a standardized practice to monitor construction activity fund accountants were left to develop their own controls and processes. The Parks Fund accountant did not establish controls and the accountant for the Streets Fund did not consistently follow established controls.

## **Effect of Condition**

### Financial Statements

- Non-depreciable assets of more than \$55 million for governmental activities and \$59 million for business type activities were presented as Depreciable Assets on the Statement of Net Position.
- Inter-fund activity of more than \$20 million was incorrectly reported as Accounts Payable and Accounts Receivables respectively in the Statement of Net Position. This error resulted in the reporting of inter-fund activities that should have been eliminated.
- Judicial expenditures of more than \$6 million were incorrectly presented as General Government expenditures in the Statement of Activities.
- Transportation, General Government and Public Safety expenditures of more than \$9 million were incorrectly presented as Utilities Environment in the Statement of Activities.
- Construction-in-progress and Infrastructure reported as capital assets did not agree to the City's capital asset subsidiary ledger by more than \$3 million.
- Components of Net Position in the Water/Sewer Fund were calculated incorrectly overstating Net Investment in Capital Assets and understating Unrestricted Net Position by more than \$7 million in the fund and Government-wide Statements of Net Position.

## Capital Assets

- Capital assets for the Parks Fund of more than \$12 million were reported as construction-in-progress in the Government-wide Statements of Net Position; however, the assets were completed as far back as 2004 and should have been transferred into depreciable asset classes and depreciated. This also results in an understatement of depreciation expense and accumulated depreciation by an undetermined amount.
- Capital assets for the Streets Fund of more than \$9 million were reported as construction-in-progress in the Government-wide Statements of Net Position; however the asset was completed during 2013 and should have been transferred to infrastructure and depreciated.

The cumulative effect of all the identified errors is as follows:

<b>Governmental Activities</b>	<b>Total Overstatement</b>
Assets	\$15,715,273
Liabilities	\$14,903,226
Net Position	\$ 812,047

City management took steps to correct these errors in the financial statements. We also identified numerous other less significant errors in the Management Discussion and Analysis and Notes to the Financial Statements, the majority of which were corrected by management.

## **Recommendation**

We recommend the City:

- Ensure internal controls ensure financial activity is accurately reported in the proper account codes in the accounting system.
- Ensure established internal controls over the preparation and review of the financial statements operate effectively.
- Establish and follow internal controls, including policies and procedures, to ensure construction-in-progress projects are capitalized timely after the completion of the project in all City funds.

## **City's Response**

*As the auditors noted, the City's management is knowledgeable of financial reporting requirements and has numerous procedures in place to review the financial information as it is compiled for the financial statements. The errors noted in this finding were generally classification errors and did not impact the financial information when taken as a whole.*

*The City recognizes the value of the State Auditor's recommendations, and is taking the following steps to improve the internal controls related to financial statement preparation:*

- 1. Automate the financial statement preparation process, implementing new systems as needed.*
- 2. Complete the current project to document all accounting procedures and processes into an online resource for accounting staff.*
- 3. Modify year end accounting procedures and processes to create a more robust level of review.*

### **Auditor's Remarks**

We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

### **Applicable Laws and Regulations**

RCW 43.09.200 states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

*Budget Accounting and Reporting System (BARS) Manual - Part 3, Accounting, Chapter 3. Accounting Principles and Internal Controls, Section 3. Controls over Financial Reporting states:*

This objective refers to fair presentation of financial statement and required schedules in all material respects in accordance in with the stated basis of accounting.

In meeting this objective, the government should have controls that accomplish the following key functions:

- Identification of financial events – Controls should ensure financial events and transactions are properly identified and recorded.
- Properly applying accounting standards – Controls should ensure correct criteria and methodology is applied when accounting for financial events. When the correct method of accounting for or reporting a transaction is unclear, the government should seek clarification by performing research, contracting for accounting

assistance, or communicating with the State Auditor's Office or standard setting bodies.

- Correctly accounting for all financial events – Controls should ensure that:
  - Only valid transactions are recorded and reported.
  - All transactions occurred during the period are recorded and reported.
  - Transactions are recorded and reported at properly valued and calculated amounts.
  - Recorded and reported transactions accurately reflect legal rights and obligations.
  - Transactions are recorded and reported in the account and fund to which they apply.
- Preparation of the annual report – Controls should ensure that financial statements and required schedules are properly compiled and prepared from source accounting records. Controls should also ensure correct presentation of statements and schedules.

Controls and processes should generate adequate documentation to demonstrate achievement of objectives. This is not only important for audit, oversight and public records purposes, but also to enable effective monitoring of controls over financial reporting by management.

*Government Auditing Standards*, July 2007 Revision – Section 5.11 provides that auditors should report material weaknesses and significant deficiencies in internal control.

The American Institute of Certified Public Accountants, Statement on Auditing Standards No. 115 defines significant deficiencies and material weaknesses as follows:

- a. Significant deficiency: A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
- b. Material weakness: A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.



# Schedule of Audit Findings and Responses

City of Spokane

Spokane County

January 1, 2013 through December 31, 2013

## 8. The City did not have adequate internal controls in place to ensure accurate financial reporting of its Schedule of Expenditures of Federal Awards.

### Background

It is the responsibility of City management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. These controls should ensure financial events are properly identified and presented completely. Controls should also ensure the criteria and accounting methodology applied to financial events is accurate. Our audit identified deficiencies in internal controls that adversely affected the City's ability to produce reliable financial statements and required schedules.

All local governments in Washington that spend federal funds are required to prepare a Schedule of Expenditures of Federal Awards (SEFA) as part of the annual financial report. U.S. Office of Management and Budget (OMB) Circular A-133 requires grantees to identify, in its accounts, all Federal program awards received and expended and to report all Federal program awards expended on the SEFA each fiscal year.

### Description of Condition

Our audit identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a significant deficiency:

- Although the City has procedures to perform a review of the financial statements and required schedules, the review was not adequate to detect and correct errors prior to audit.
- The City did not have a clear understanding of the SEFA reporting requirements for its Capitalization Grants for Clean Water State Revolving Funds loans and did not follow guidance provided in the *Budget, Accounting and Reporting Standards* (BARS) manual or OMB Circular A-133.

### Cause of Condition

The City's established controls were to report Capitalization Grants for Clean Water State Revolving Funds loans on the SEFA when revenues were received instead of when the related federal expenditures were incurred as required. The City did not request reimbursement for expenditures for 2013 until 2014 which delayed when reimbursement was received from the Department of Ecology. City management did not detect errors in the SEFA during the review process.

## Effect of Condition

The City did not report \$3,367,118 for the Capitalization Grants for Clean Water State Revolving Funds (CFDA 66.458) on the 2013 schedule. This error is considered material to the 2013 SEFA and required this program to receive a federal single audit. As a result, we have re-issued our 2013 report (originally dated September 23, 2014) to include our opinion over the internal controls and compliance with grant requirements under CFDA 66.458.

The City reported 2013 expenditures for the Capitalization Grants for Clean Water State Revolving Funds loans in subsequent years. As a result of this misstatement, total program expenditures increased and created a new major program that required an audit.

The City subsequently corrected the misstatements described above.

## Recommendation

We recommend City management strengthen internal controls over SEFA reporting by ensuring:

- Employees responsible for the preparation of the SEFA review and understand reporting requirements outlined in the *Budgeting, Accounting and Reporting System* (BARS) manual and OMB Circular A-133.
- An effective independent review of the SEFA is performed to ensure all federal program expenditures are completely and accurately reported.

## City's Response

*The City acknowledges the error in the SEFA and will implement the following corrective action plan to address the auditor's concerns:*

- *Enhanced communication with and oversight by the City's Grants Management and Financial Assistance Department.*
- *The city hired a Grants & Contracts Financial Assistance Manager position who will oversee the preparation of the SEFA.*
- *Additional OMB Circular A-133 training will be sought for accounting staff that are directly related to grant accounting.*

## Auditor's Remarks

We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

## Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*,

Subpart E, Section 500, states in part:

- (a) General. The audit shall be conducted in accordance with GAGAS . . . .

*Government Auditing Standards*, December 2011 Revision, paragraph 4.23 states:

**4.23** When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

Subpart B, Section 205, states in part:

- (a) Determining Federal awards expended. The determination of when an award is expended should be based on when the activity related to the award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with laws, regulations, and the provisions of contracts or grant agreements, such as: expenditure/expense transactions associated with grants, cost-reimbursement contracts, cooperative agreements, and direct appropriations; the disbursement of funds passed through to subrecipients; the use of loan proceeds under loan and loan guarantee programs; the receipt of property; the receipt of surplus property; the receipt or use of program income; the distribution or consumption of food commodities; the disbursement of amounts entitling the non-Federal entity to an interest subsidy; and, the period when insurance is in force.

Subpart C, Section 300, states in part:

The auditee shall . . .

- (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.

- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in

compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

(d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §\_\_\_.310...

Subpart C, Section 310, states in part:

(b) Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements . . .

(1) List individual Federal programs by Federal agency...

(2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.

(3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available....

The OMB Circular A-133 Compliance Supplement 2014. *Environmental Protection Agency CFDA 66.458 Capitalization Grants For clean Water State Revolving Funds IV. Other Information* states in part:

#### *Subrecipients*

CWSRF amounts are awarded by EPA to States as grants. The States then makes subawards in the form of loans to its subrecipients. Therefore, in determining the amount of Federal funds expended to be reported on the Schedule of Expenditures of Federal Awards (SEFA), subrecipients receiving CWSRF loans should include project expenditures incurred under these loans during the audit period as provided in OMB Circular A-133 §\_\_\_.205(a). These are subawards—not direct Federal loans—and, therefore, neither OMB Circular A-133 §\_\_\_.205(b) nor §\_\_\_.205(d) applies when calculating the amount of Federal funds expended.

If a subrecipient incurs expenditures under an approved CWSRF loan in one audit period for which it is not reimbursed by the State until a subsequent audit period, those expenditures should be reported on the subrecipient's SEFA in the year in which the outlay was made, regardless of when the subrecipient received reimbursement.

It also is important to appropriately identify these CWSRF loans as subawards because of the impact on which Federal agency is the cognizant or oversight agency. When completing the SFSAC, the

subrecipient should indicate that a CWSRF loan received from the State is not a direct award by showing an “N” in Part III, Item 6(h).

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:

**.07** For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

**Material weakness.** A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

**Significant deficiency.** A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

RCW 43.09.200 Local government accounting – Uniform system of accounting, states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

*Budget Accounting and Reporting System (BARS) Manual; Accounting; Accounting Principles and Internal Control; Internal Control* states in part:

**Purpose and Definition of Internal Controls**

Internal control is defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), in standards adopted by the American Institute of Certified Public Accountants and by the Federal Office of Management and Budget as follows:

Internal control is a process – affected by those charged with governance, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations
- Reliability of financial reporting

Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing

body. The governing body has *ultimate* responsibility for ensuring adequate controls to achieve objectives, even though *primary* responsibility has been delegated to management. Since management and the governing body are assumed to work in harmony, both parties are collectively referred to as “management” throughout the rest of this section.

#### Controls over Financial Reporting

This objective refers to fair presentation of financial statements and required schedules in all material respects in accordance with the stated basis of accounting...

Preparation of the annual report – Controls should ensure that financial statements and required schedules are properly compiled and prepared from source accounting records. Controls should also ensure correct presentation of statements and schedules . . . .

## Schedule of Prior Federal Audit Findings

### City of Spokane Spokane County January 1, 2013 through December 31, 2013

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of the City of Spokane. The State Auditor's Office has reviewed the status as presented by the City.

<b>Audit Period:</b> 1/1/2012 – 12/31/2012	<b>Report Ref. No.:</b> 1010571	<b>Finding Ref. No.:</b> 1	<b>CFDA Number(s):</b> 11.555
<b>Federal Program Name and Granting Agency:</b> Public Safety Interoperable Communications Grant – U.S. Department of Commerce		<b>Pass-Through Agency Name:</b> Military Department	
<b>Finding Caption:</b> The City did not have adequate internal controls to properly manage grant funds in compliance with federal grant requirements for its Public Safety Interoperable Communications Grant.			
<b>Background:</b> During 2012, the Spokane Police Department spent \$1,745,424 in federal Public Safety Interoperable Communications Grant funds. The purpose of the grant is to enhance countywide communication capabilities if it is necessary to respond to and recover from disasters and incidents of terrorism.  Our audit found the Police Department did not expend amounts requested in a timely manner. The City requested reimbursement for the entire grant amount on July 25, 2012 and funds were received from the grantor on August 2, 2012. The City paid \$1,679,305 of the grant expenditures on September 25, 2012. The remaining \$66,119 was paid on October 3, 2012, which was outside the period of availability.			
<b>Status of Corrective Action: (check one)</b> <input checked="checked" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid			

<b>Audit Period:</b> 1/1/2012 – 12/31/2012	<b>Report Ref. No.:</b> 1010571	<b>Finding Ref. No.:</b> 2	<b>CFDA Number(s):</b> 14.218/14.253
<b>Federal Program Name and Granting Agency:</b> Community Development Block Grants/Entitlement Grants & Community Development Block Grant/Entitlement Grants (American Recovery and Reinvestment Act) – U.S. Department of Housing and Urban Development		<b>Pass-Through Agency Name:</b> NA	

**Finding Caption:**

The City did not have adequate controls to comply with federal grant requirements for its Community Development Block Grants.

**Background:**

During 2012, the City spent \$4,789,801 in federal Community Development Block Grant (CDBG) funds, of which \$50,000 was from the American Recovery and Reinvestment Act. The City used this funding to provide housing and to expand economic opportunities for persons of low and moderate income.

Our audit identified a significant deficiency in internal controls. We found the Department's employees allocate payroll costs to grants based on total expenditures for each grant program rather than on actual time worked. Employees do not track actual hours worked on each grant or complete time and effort documentation.

While the Department calculated interest earned on excess cash balances, employees did not remit interest earnings for the third and fourth quarters of 2012 to the grantor until the auditors requested records for audit in July of 2013. We found that the City did not submit the third and fourth quarter Federal Financial Reports (SF-425) until requested for audit.

The Department estimated future grant expenditures, with an allowance for the current cash balance, to determine a cash draw amount that will ensure a remaining cash balance of approximately \$100,000. The Department has not received approval from the grantor to maintain a cash balance.

**Status of Corrective Action: (check one)**☐ Fully Corrected☒ Partially Corrected☐ No Corrective Action Taken☐ Finding is considered no longer valid**Corrective Action Taken:***Time and Effort*

*Staff in the City's Accounting Department performed a reconciliation of the questioned costs for City staff salaries and benefits charged to CDBG and provided a copy of the reconciliation to Housing and Urban Development (HUD). This reconciliation identified an adjustment in the amount of \$2,480.87 was required for CDBG Program Year 2012. This adjustment was completed on May 16, 2014.*

*Further, the City has implemented new procedures regarding time and effort tracking and reporting in order to ensure compliance with the requirements of A-87. All program staff working in the City's Community, Housing and Human Services (CHHS) Department and accounting staff in the City's Accounting Department assigned specifically to the CHHS Department track all of the direct time worked by cost objective/specific program using a timesheet that is prepared and signed by the employee and reviewed and signed by his/her supervisor each pay period.*

*Administrative time (costs which are not readily identifiable with a specific cost objective/program), leave (sick, vacation, etc.) and other employee benefits are allocated to the grants using the rate and methodology as identified in the City's A-87 Cost Allocation Plan. They are applied based on direct salary expenditures. This plan is prepared in compliance with A-87, contains the appropriate annual certification and is maintained on file, as required for local governments and made available for audit to the State Auditor's Office annually.*



*During the 2013 Single Audit, the Audit Manager indicated that the methodology being used in 2014 is the correct methodology.*

*The time and effort issue is now fully corrected.*

**Cash Management**

*During the 2012 audit period, the City was making grant drawdowns in advance of paying expenses, as allowed under 24 CFR Part 85.20. The Auditor found that all interest earned on these advance draws had not been remitted to HUD as required until July, 2013. In March 2014, the City adopted a new Grants Management Policy and Procedure, which requires that all grant funds are drawn down on a reimbursement basis only. The policy has been distributed to all City Accounting staff and training has also been provided.*

**Reporting**

*The City implemented new controls relative to reporting under its March 2014 Grants Management Policy and Procedure and through implementation of a new, central award management system. The primary City grant file is now maintained in the award management system so that it can be shared across departments. Reporting requirements are entered as tasks with appropriate deadline dates and sent out to staff responsible for preparing the report and staff responsible for reviewing and submitting the report. Task completion is monitored by award managers on a regular basis and by staff in the Grants Management Department periodically and based upon risk as defined in the policy and procedures.*

**Program Income**

*The City's Accounting staff has improved its procedures in 2014 to include posting program income into the HUD Integrated Disbursement Information System daily. This is verified by an Accounting supervisor. Further controls are being implemented to verify this corrective action is fully implemented and include the Accounting Director reviewing all entitlement draws prior to submission for a minimum period of 3 to 6 months to verify that all eligible program income is used prior to drawing down grant funds.*

*Additionally, the City's Grants Management Department is leading a comprehensive effort with the City's accounting and program staff to review all active grant budgets, fund and account set up and documenting this process in policy and procedures to ensure that we are proactively establishing financial and reporting systems to meet tracking and reporting requirements.*

<b>Audit Period:</b> 1/1/2012 – 12/31/2012	<b>Report Ref. No.:</b> 1010571	<b>Finding Ref. No.:</b> 3	<b>CFDA Number(s):</b> 14.235
<b>Federal Program Name and Granting Agency:</b> Supporting Housing Program – U.S. Department of Housing and Urban Development		<b>Pass-Through Agency Name:</b> NA	
<b>Finding Caption:</b> The City did not have adequate internal controls to ensure compliance with federal grant requirements for its Supporting Housing Grant.			

**Background:**

During 2012, the City spent \$1,995,382 in federal Supportive Housing Grant funds. The City used the funds to develop housing and support services that assist the homeless in living as independently as possible.

Our audit identified a significant deficiency in internal controls. The Department has established a control that requires employees to print and sign a monthly timesheet. However, we found that although Department employees recorded their time on monthly time reports during 2012, these reports were not printed or signed as required by federal regulations.

The grant requires the City to provide a matching cash contribution of 20 percent for support services and 25 percent for operating costs. The Department used grant funds of \$1,847,776 to contract with other agencies to provide supportive housing programs and each agreement includes these matching requirements. Our audit identified a material weakness in internal controls. The Department has established controls that require the monitoring of matching requirements by reviewing other funding sources received by the subrecipient agencies and making on-site monitoring visits when deemed necessary. However, our audit identified a material weakness in internal controls. We found the Department did not perform the established monitoring activities during 2012.

**Status of Corrective Action: (check one)**☐ Fully Corrected☒ Partially Corrected☐ No Corrective Action Taken☐ Finding is considered no longer valid**Corrective Action Taken:***Time and Effort*

*The City has implemented new procedures regarding time and effort tracking and reporting in order to ensure compliance with the requirements of A-87. All program staff working in the City's Community, Housing and Human Services (CHHS) Department and accounting staff in the City's Accounting Department assigned specifically to the CHHS Department track all of the direct time worked by cost objective/specific program using a timesheet that is prepared and signed by the employee and reviewed and signed by his/her supervisor each pay period.*

*Administrative time (costs which are not readily identifiable with a specific cost objective/program), leave (sick, vacation, etc.) and other employee benefits are allocated to the grants using the rate and methodology as identified in the City's A-87 Cost Allocation Plan. They are applied based on direct salary expenditures. This plan is prepared in compliance with A-87, contains the appropriate annual certification and is maintained on file as required for local governments and made available for audit to the State Auditor's Office annually. During the 2013 Single Audit, the Audit Manager indicated that the methodology being used in 2014 is the correct methodology. This issue under this finding is fully corrected.*

*Subrecipient Monitoring*

*The City implemented a specific policy and procedure relative to subrecipient monitoring in its Grants and Financial Assistance Guide, adopted March 24, 2014. As dictated in this policy and contractually required in our subrecipient contracts, grant program managers perform monthly desktop monitoring of subrecipients' grant expenses and reported match. This includes review of the completed invoice containing budget to actual information as well as supporting documentation.*

*To further enhance its procedures in this area, the City is currently undertaking a comprehensive systems review and improvement effort relative to subrecipient monitoring under federal grants being managed by the CHHS Department*

<b>Audit Period:</b> 1/1/2012 – 12/31/2012	<b>Report Ref. No.:</b> 1010571	<b>Finding Ref. No.:</b> 4	<b>CFDA Number(s):</b> 14.239
<b>Federal Program Name and Granting Agency:</b> Home Investment Partnership Program – U.S. Department of Housing and Urban Development		<b>Pass-Through Agency Name:</b> NA	
<b>Finding Caption:</b> The City did not have adequate internal controls to ensure compliance with time and effort requirements for its Home Investment Partnership Program Grant.			
<b>Background:</b> During 2012, the City spent \$1,472,988 in federal Home Investment Partnership Program funds. The City used this funding to expand the supply of affordable housing for persons with low or very low income. Our audit identified a significant deficiency in internal controls. We found the Department's employees allocate payroll costs to grants based on the total expenditures for each grant program rather than on the actual time worked. Employees do not track actual hours worked on each grant or complete time and effort documentation.			
<b>Status of Corrective Action: (check one)</b> <input checked="checked" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid			
<b>Corrective Action Taken:</b> <i>The City has implemented new procedures regarding time and effort tracking and reporting in order to ensure compliance with the requirements of A-87. All program staff working in the City's Community, Housing and Human Services (CHHS) Department and accounting staff in the City's Accounting Department assigned specifically to the CHHS Department track all of the direct time worked by cost objective/specific program using a timesheet that is prepared and signed by the employee and reviewed and signed by his/her supervisor each pay period.</i>  <i>Administrative time (costs which are not readily identifiable with a specific cost objective/program), leave (sick, vacation, etc.) and other employee benefits are allocated to the grants using the rate and methodology as identified in the City's A-87 Cost Allocation Plan. They are applied based on direct salary expenditures. This plan is prepared in compliance with A-87, contains the appropriate annual certification and is maintained on file as required for local governments and made available for audit to the State Auditor's Office annually. During the 2013 Single Audit, the Audit Manager indicated that the methodology being used in 2014 is the correct methodology. This issue under this finding is fully corrected.</i>			

<b>Audit Period:</b> 1/1/2012 – 12/31/2012	<b>Report Ref. No.:</b> 1010571	<b>Finding Ref. No.:</b> 5	<b>CFDA Number(s):</b> 14.907
<b>Federal Program Name and Granting Agency:</b> ARRA Lead-Based Paint Hazard Control in Privately-Owned Housing (Recovery Act Funded) – U.S. Department of Housing and Urban Development		<b>Pass-Through Agency Name:</b> NA	
<b>Finding Caption:</b> The City did not have adequate internal controls to ensure compliance with time and effort requirements for its Lead-Based Paint Grant.			
<b>Background:</b> During 2012, the City spent \$411,468 in federal Lead-Based Paint Hazard Control from the American Recovery and Reinvestment Act. The City used this funding to evaluate and control lead-based paint hazards in low-income residential housing. Our audit identified a significant deficiency in internal controls. We found the Department's employees allocate payroll costs to grants based on the total expenditures for each grant program rather than on actual time worked. Employees do not track actual hours worked on each grant or complete time and effort documentation.			
<b>Status of Corrective Action: (check one)</b> <input checked="checked" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid			
<b>Corrective Action Taken:</b> <i>The City has implemented new procedures regarding time and effort tracking and reporting in order to ensure compliance with the requirements of A-87. All program staff working in the City's Community, Housing and Human Services (CHHS) Department and accounting staff in the City's Accounting Department assigned specifically to the CHHS Department track all of the direct time worked by cost objective/specific program using a timesheet that is prepared and signed by the employee and reviewed and signed by his/her supervisor each pay period.</i>  <i>Administrative time (costs which are not readily identifiable with a specific cost objective/program), leave (sick, vacation, etc.) and other employee benefits are allocated to the grants using the rate and methodology as identified in the City's A-87 Cost Allocation Plan. They are applied based on direct salary expenditures. This plan is prepared in compliance with A-87, contains the appropriate annual certification and is maintained on file as required for local governments and made available for audit to the State Auditor's Office annually. During the 2013 Single Audit, the Audit Manager indicated that the methodology being used in 2014 is the correct methodology. This issue under this finding is fully corrected.</i>			

<b>Audit Period:</b> 1/1/2012 – 12/31/2012	<b>Report Ref. No.:</b> 1010571	<b>Finding Ref. No.:</b> 6	<b>CFDA Number(s):</b> 16.710
<b>Federal Program Name and Granting Agency:</b> Public Safety Partnership and Community Policing Grant – U.S. Department of Justice		<b>Pass-Through Agency Name:</b> NA	
<b>Finding Caption:</b> The City did not have adequate internal controls to ensure compliance with cash management requirements for its Public Safety Partnership and Community Policing Grant.			
<b>Background:</b> <p>During 2012, the Spokane Police Department spent \$1,108,460 in federal Public Safety Partnership and Community Policing Grant funds. The purpose of the grant is to enhance countywide communication capabilities if it is necessary to respond to and recover from disasters and incidents of terrorism.</p> <p>Our audit found the Police Department did not expend amounts requested in a timely manner. The City requested grant reimbursements five times during 2012. In one instance, \$282,197 was requested on August 24, 2012, and received from the grantor on August 27, 2012. The City did not disburse these funds to vendors until October 3, 2012. In addition, the Department did not calculate interest earnings on the cash balance to determine if a portion of those earnings should be paid to the grantor.</p>			
<b>Status of Corrective Action: (check one)</b> <input checked="checked" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid			
<b>Corrective Action Taken:</b> <p><i>The City adopted a comprehensive Grants Management Policy and Procedures in March 2014, which requires that all grant funds be drawn down on a reimbursement basis only. The \$128 questioned costs in this finding were returned to the Department of Justice on August 27, 2013.</i></p> <p><i>Compliance with the grants management policy and adherence to federal regulations is monitored by the City's Grants Management and Financial Assistance Department (GMFA). Staff from this department currently reviews and approves all program and financial reports, drawdown requests, and closeout activities under Department of Justice awards made to the City. Reviewing staff in the GMFA Department hold certificates for the Department of Justice Financial Management Training. Additionally, the Accountant who prepares all of the financial reports and accounting entries in the Police Department has also completed this training. The Accountant's new supervisor in the Police Department will also complete the training prior to September 30, 2014.</i></p>			

<b>Audit Period:</b> 1/1/2012 – 12/31/2012	<b>Report Ref. No.:</b> 1010571	<b>Finding Ref. No.:</b> 7	<b>CFDA Number(s):</b> 66.458
<b>Federal Program Name and Granting Agency:</b> Capitalization Grants for Clean Water State Revolving Fund – Environmental Protection Agency		<b>Pass-Through Agency Name:</b> Washington State Department of Ecology	
<b>Finding Caption:</b> The City did not have adequate internal controls to ensure compliance with federal Davis-Bacon prevailing wage requirements.			
<b>Background:</b> During 2012, the City spent \$3,108,402 in federal grant money on Combined Sewer Overflow basins 38, 39 and 40 and a Summit Low-impact Urban Retrofit Project. Our audit found the City did not obtain certified weekly payrolls from the contractor or subcontractors during the project. The City had an internal process to monitor the submitted weekly certified payrolls, however, the City informed the contractor that the funding used for the project was state funding and that certified payrolls were not required.			
<b>Status of Corrective Action: (check one)</b> <input checked="checked" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid			
<b>Corrective Action Taken:</b> <i>The City properly notified the contractor and subcontractors that the funds used for the same projects during 2013 were federal and all certified weekly payrolls were submitted as required. The City followed their internal process to monitor the submitted weekly certified payrolls.</i>			

## Status of Prior Audit Findings

**City of Spokane  
Spokane County  
January 1, 2013 through December 31, 2013**

<b>Audit Period:</b> 1/1/2012 – 12/31/2012	<b>Report Ref. No.:</b> 1010571	<b>Finding Ref. No.:</b> 8
<b>Finding Caption:</b> The City did not have adequate internal controls in place to ensure accurate financial reporting of its Schedule of Expenditures of Federal Awards.		
<b>Background:</b> During 2012, the City did not have a clear understanding of the SEFA reporting requirements for its Capitalization Grants for Clean Water State Revolving Funds loans and did not follow guidance provided in the <i>Budgeting, Accounting and Reporting Standards</i> (BARS) manual or OMB Circular A-133. The City did not report \$3,108,402 for the Capitalization Grants for Clean Water State Revolving Funds on the 2012 SEFA.		
<b>Status of Corrective Action: (check one)</b> <input type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input checked="" type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid		
<b>Corrective Action Taken:</b> <i>This control deficiency was originally identified during the 2014 audit which lead to the re-issuance of the 2012 and 2013 audit reports to add the Capitalization Grants for Clean Water State Revolving Fund loans expenditures to each 2012 SEFA. As these reports were re-issued with the same report date, January 25, 2016, no corrective action was taken.</i>		



# **Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

**City of Spokane  
Spokane County  
January 1, 2013 through December 31, 2013**

Mayor and City Council  
City of Spokane  
Spokane, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Spokane, Spokane County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 23, 2014.

## ***INTERNAL CONTROL OVER FINANCIAL REPORTING***

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant



deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Findings 7 and 8, which we consider to be significant deficiencies.

## ***COMPLIANCE AND OTHER MATTERS***

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## ***CITY'S RESPONSE TO FINDINGS***

The City's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## ***PURPOSE OF THIS REPORT***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



**TROY KELLEY**  
STATE AUDITOR  
OLYMPIA, WA

September 23, 2014, except for our report on the Schedule of Federal Awards and the matters discussed in the Schedule of Audit Findings and Responses 8, for which the date is January 25, 2016.

# **Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

**City of Spokane  
Spokane County  
January 1, 2013 through December 31, 2013**

Mayor and City Council  
City of Spokane  
Spokane, Washington

## ***REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM***

We have audited the compliance of the City of Spokane, Spokane County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The City's major federal programs are identified in the accompanying Federal Summary.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

***Basis for Qualified Opinion on CFDA 14.218 Community Development Block Grants/Entitlement Grants Program, CFDA 14.235 Supportive Housing Program, CFDA 14.239 HOME Investment Partnerships Program, CFDA 14.267 Continuum of Care Program and CFDA 97.044 Assistance to Firefighters Grant***

As described in Finding 1, 2, 3, 4, and 6 in the accompanying Schedule of Federal Audit Findings and Questioned Costs, the City did not comply with requirements regarding the following:

Finding No.	CFDA No.	Program Title	Compliance Requirements
1	14.218	Community Development Block Grants/Entitlement Grants Program	Program Income Subrecipient Monitoring
2	14.235	Supportive Housing Program	Reporting Subrecipient Monitoring
3	14.239	HOME Investment Partnerships Program	Program Income
4	14.267	Continuum of Care Program	Reporting Subrecipient Monitoring
6	97.044	Assistance to Firefighters Grants	Procurement and Suspension and Debarment

Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to the programs.

***Qualified Opinion on CFDA 14.218 Community Development Block Grants/Entitlement Grants Program, CFDA 14.235 Supportive Housing Program, CFDA 14.239 HOME Investment Partnerships Program, CFDA 14.267 Continuum of Care Program and CFDA 97.044 Assistance to Firefighters Grant***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its CFDA 14.218 Community Development Block Grants/Entitlement Grants Program, CFDA 14.235 Supportive Housing Program, CFDA 14.239 HOME Investment Partnerships Program, CFDA 14.267 Continuum of Care Program and CFDA 97.044 Assistance to Firefighters Grant for the year ended December 31, 2013.

***Unmodified Opinion on Each of the Other Major Federal Programs***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the accompanying Federal Summary for the year ended December 31, 2013.

***City's Response to Findings***

The City's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The City's response

was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### ***Report Reissuance***

This report, which replaces a previously issued report, has been reissued to report on CFDA 66.468 Capitalization Grants for Drinking Water State Revolving Funds as an additional major program.

## ***REPORT ON INTERNAL CONTROL OVER COMPLIANCE***

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 1, 2, 3, 4, 5 and 6 to be material weaknesses.

## ***PURPOSE OF THIS REPORT***

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

**TROY KELLEY**  
STATE AUDITOR  
OLYMPIA, WA

September 23, 2014, except for our report on the CFDA 66.458 Capitalization Grants for Drinking Water State Revolving Funds program, for which the date is January 25, 2016.

# **Independent Auditor's Report on Financial Statements**

## **City of Spokane Spokane County January 1, 2013 through December 31, 2013**

Mayor and City Council  
City of Spokane  
Spokane, Washington

### ***REPORT ON THE FINANCIAL STATEMENTS***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Spokane, Spokane County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 73.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Spokane, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 75 through 89, budgetary comparison information on page 154, information on postemployment benefits other than pensions and pension trust fund information on pages 157 through 159 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



The Schedule of General Fund Accounts Balance Sheet, Statement of Revenues, Expenditures, and Changes in Fund Balances, and Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget to Actual for each Fund included in the General Fund are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### ***OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



**TROY KELLEY**  
STATE AUDITOR  
OLYMPIA, WA

September 23, 2014, except for our report on the Schedule of Expenditures of Federal Awards, for which the date is January 25, 2016.



## **Financial Section**

### **City of Spokane Spokane County January 1, 2013 through December 31, 2013**

#### ***REQUIRED SUPPLEMENTARY INFORMATION***

Management's Discussion and Analysis – 2013

#### ***BASIC FINANCIAL STATEMENTS***

Statement of Net Position – 2013

Statement of Activities – 2013

Balance Sheet – Governmental Funds – 2013

Reconciliation of the Balance Sheet to the Statement of Net Position – Governmental Funds – 2013

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2013

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities – 2013

Statement of Net Position – Proprietary Funds – 2013

Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds – 2013

Statement of Cash Flows – Proprietary Funds – 2013

Statement of Fiduciary Net Position – Fiduciary Funds – 2013

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2013

Notes to Financial Statements – 2013

#### ***REQUIRED SUPPLEMENTARY INFORMATION***

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual – General Fund Accounts – 2013

Schedule of Funding Progress – Employees' Retirement System, Firefighters Pension System and Police Pension System – 2013

Schedule of Employer Contributions – Employees' Retirement System, Firefighters' Pension System and Police Pension System – 2013

Other Postemployment Benefits – Firefighters Pension System and Police Pension System – 2013

Notes to the Required Supplementary Information – 2013

## ***SUPPLEMENTARY AND OTHER INFORMATION***

Schedule of Expenditures of Federal Awards – 2013

Notes to the Schedule of Expenditures of Federal Awards – 2013

Schedule for General Fund Accounts – Balance Sheet – 2013

Schedule for General Fund Accounts – Statement of Revenues, Expenditures and  
Changes in Fund Balances – 2013

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual –  
each fund included in the General Fund Accounts – 2013

## **City of Spokane MANAGEMENT'S DISCUSSION AND ANALYSIS**

Within this section of the City of Spokane, Washington (the City)'s annual financial report, the City's management is pleased to provide this narrative discussion and analysis of the financial activities of the City as of and for the fiscal year ended December 31, 2013. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

### **Financial Highlights**

- The City's assets exceeded its liabilities by \$2,268.5 million (net position) for the fiscal year reported.
- Total net position is comprised of the following:
  - (1) Net investment in capital assets of \$2,035.5 million, includes property, equipment and infrastructure, net of accumulated depreciation, and is reduced for outstanding debt related to the purchase or construction of capital assets.
  - (2) Net position of \$74.0 million is restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
  - (3) Unrestricted net position of \$159.0 million represents the portion available to maintain the City's continuing obligations to citizens and creditors.
- The City's governmental funds reported a total ending fund balance of \$142.8 million this year, a decrease of \$7.9 million from the prior year, which is primarily due to a reduction of \$3.8 million in the sale of fixed assets and a net reduction of \$4.1 million in transfers in/out.
- At the end of the current fiscal year, fund balance for the General Fund totaled \$33.9 million, excluding the nonspendable and restricted categories, which is 25% of General Fund expenditures excluding transfers.
- Overall, the City maintained its strong financial position in 2013, and is continuing to maintain a stable financial outlook, despite ongoing budgetary pressures related to the slow economic recovery.

The above financial highlights are explained in more detail in the "financial analysis" section of this document.

### **Overview of the Financial Statements**

This Management Discussion and Analysis document introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. The City also includes in this report additional information to supplement the basic financial statements. Comparative data is presented when available.

### **Government-wide Financial Statements**

The City's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall financial status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in accrual accounting and elimination or reclassification of activities between funds.

The first of these government-wide statements is the *Statement of Net Position*. This is the government-wide statement of position presenting information that includes all of the City's assets and liabilities, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall health of the City would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of City infrastructure, in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities*, which reports how the City's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when

cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinguish governmental activities of the City that are principally supported by property, sales and utility taxes from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, judicial, public safety, physical environment, transportation, health and human services, economic environment, and culture and recreation. Business-type activities include the utility services, golf courses, and the building services funds. The internal service funds provide services to other funds within the City and the majority of these activities are reported in governmental activities at the government-wide financial reporting level.

### ***Fund Financial Statements***

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. Individual fund data for non-major funds is provided in the form of combining statements in a later section of this report.

The City has three kinds of funds:

**Governmental funds** are reported in the fund financial statements and encompass the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the City's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund operating statement provide a reconciliation to assist in understanding the differences between these two perspectives.

Budgetary comparison statements are included as "basic financial statements" for the major governmental funds. Budgetary comparison schedules for all other governmental funds can be found in a later section of this report. These statements demonstrate compliance with the City's adopted and final revised budget.

Individual fund information for non-major governmental funds is found in combining statements in a later section of this report.

**Proprietary funds** are reported in the fund financial statements and generally report services for which the City charges customers a fee. The City proprietary funds are classified as either enterprise funds or internal service funds. The enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. The internal service funds provide services to other funds of the City.

**Fiduciary funds** include three single-employer defined benefit pension plans for City employees as well as various agency funds. The City reports these funds however they are not available for City use.

### **Notes To The Basic Financial Statements**

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

### **Financial Analysis of the City as a Whole**

Over time, as year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to discuss the changing financial position of the City as a whole.

The City's net position at fiscal year-end is \$2,268.5 million as shown below.

	Governmental Activities		Business-Type Activities		Total	
Summary of Net Position (in thousands)	2013	2012	2013	2012	2013	2012
<b>ASSETS</b>						
Current and other assets	\$ 200,370	\$ 210,729	\$ 163,486	\$ 154,888	\$ 363,856	\$ 365,617
Restricted assets	-	-	10,505	13,533	10,505	13,533
Capital assets	1,549,173	1,554,081	612,316	615,240	2,161,489	2,169,321
<b>Total assets</b>	<b>1,749,543</b>	<b>1,764,809</b>	<b>786,307</b>	<b>783,661</b>	<b>2,535,850</b>	<b>2,548,470</b>
<b>LIABILITIES</b>						
Current liabilities	47,440	49,190	18,048	16,492	65,488	65,683
Long-term liabilities	174,885	185,400	26,911	30,259	201,795	215,660
<b>Total liabilities</b>	<b>222,325</b>	<b>234,590</b>	<b>44,959</b>	<b>46,752</b>	<b>267,284</b>	<b>281,342</b>
<b>NET POSITION</b>						
Net investment in capital assets	1,433,814	1,439,429	601,683	610,788	2,035,497	2,050,217
Restricted	73,990	89,631	-	13,471	73,990	103,102
Unrestricted	19,413	1,159	139,665	112,650	159,079	113,809
<b>Total net position</b>	<b>\$ 1,527,218</b>	<b>\$ 1,530,219</b>	<b>\$ 741,348</b>	<b>\$ 736,909</b>	<b>\$ 2,268,567</b>	<b>\$ 2,267,128</b>

The City continues to maintain a healthy current ratio. The current ratio compares current assets to current liabilities and is an indication of the ability to pay current obligations. The current ratio for governmental activities is 4.2 and 9.0 for business type activities. For the City overall, the current ratio is 5.5. We consider these ratios to be very strong.

### Governmental Activities

Net position decreased \$3.0 million for governmental activities. The net reduction in net position of \$4.1 million is partially offset by a prior period increase of \$1.1 million.

The decrease of \$15.6 million in restricted net position is due to an increase of \$2.4 million for grants and debt and a decrease of \$18.0 million attributable to net losses related to street capital projects. The cumulative effect of the restricted net position decrease plus the changes in net position noted above is an increase in unrestricted net position for governmental activities of \$18.2 million.

### Business-Type Activities

Business activities' net position showed an increase of \$4.4 million that is due to the net income of the city's water/sewer fund of \$19.6 million in 2013 less a prior period adjustment of \$15.2 million. See Note 14 for additional information on the city's prior period adjustments.

It should be noted that 94% of the governmental activities' net position is related to the net investment in capital assets (with 70% of the net investment in capital assets being infrastructure). The City uses these capital assets to provide services to its citizens. With business-type activities, the City has committed 81% of its net position on capital (with 75% of the capital assets being infrastructure). Capital assets in the business-type activities provide utility services, but they also generate revenues for these funds. The net investment in capital assets makes up 90% of the City's total net position.

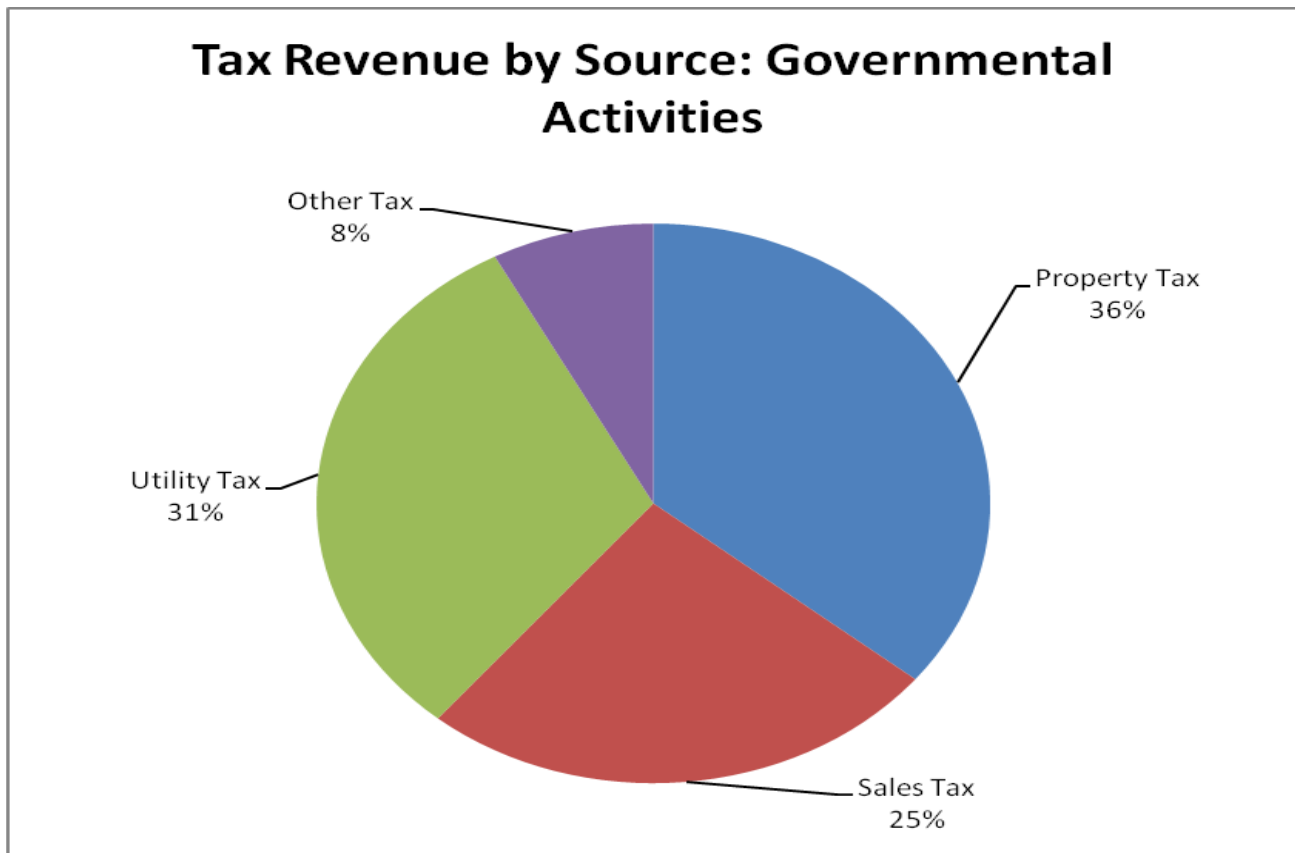
The following provides a summary of the City's changes in net position:

	Governmental Activities		Business-Type Activities		Total	
Change in Net Position (in thousands)	2013	2012	2013	2012	2013	2012
<b>REVENUES</b>						
Program revenues:						
Charges for services	\$ 32,023	\$ 34,766	\$ 195,121	\$ 188,003	<b>227,144</b>	<b>222,769</b>
Operating grants and contributions	16,159	19,280	-	-	<b>16,159</b>	<b>19,280</b>
Capital grants and contributions	7,269	11,297	5,419	7,486	<b>12,688</b>	<b>18,783</b>
General revenues:					-	-
Taxes	177,840	175,271	-	-	<b>177,840</b>	<b>175,271</b>
Interest and investment earnings	2,889	3,308	261	681	<b>3,150</b>	<b>3,990</b>
Net inc (dec) in fair value of investments	(1,417)	629	(1,121)	551	<b>(2,538)</b>	<b>1,180</b>
<b>Total revenues</b>	<b>234,763</b>	<b>244,551</b>	<b>199,681</b>	<b>196,721</b>	<b>434,444</b>	<b>441,272</b>
<b>EXPENSES</b>						
General government	(15,181)	(28,092)	-	-	<b>(15,181)</b>	<b>(28,092)</b>
Judicial	(6,700)	(7,451)	-	-	<b>(6,700)</b>	<b>(7,451)</b>
Public safety	(109,027)	(114,361)	-	-	<b>(109,027)</b>	<b>(114,361)</b>
Utilities environment	-	-	-	-	-	-
Transportation	(48,666)	(42,310)	-	-	<b>(48,666)</b>	<b>(42,310)</b>
Economic environment	(22,153)	(20,303)	-	-	<b>(22,153)</b>	<b>(20,303)</b>
Mental and physical health	(118)	(497)	-	-	<b>(118)</b>	<b>(497)</b>
Culture and recreation	(29,133)	(37,314)	-	-	<b>(29,133)</b>	<b>(37,314)</b>
Interest on long-term debt	(7,995)	(8,342)	-	-	<b>(7,995)</b>	<b>(8,342)</b>
Water/Sewer	-	-	(97,160)	(97,360)	<b>(97,160)</b>	<b>(97,360)</b>
Solid Waste	-	-	(74,174)	(73,192)	<b>(74,174)</b>	<b>(73,192)</b>
Other business-type activities	-	-	(8,607)	(6,723)	<b>(8,607)</b>	<b>(6,723)</b>
<b>Total expenses</b>	<b>(238,972)</b>	<b>(258,670)</b>	<b>(179,941)</b>	<b>(177,274)</b>	<b>(418,914)</b>	<b>(435,944)</b>
<b>Excess (deficiency) of revenues over expenses before contributions &amp; transfers</b>	<b>(4,209)</b>	<b>(14,119)</b>	<b>19,740</b>	<b>19,446</b>	<b>15,531</b>	<b>5,328</b>
Transfers	49	17	(49)	(17)	-	-
<b>Increase (decrease) in net position</b>	<b>(4,160)</b>	<b>(14,101)</b>	<b>19,690</b>	<b>19,429</b>	<b>15,531</b>	<b>5,328</b>
Net Position - January 1, as restated	1,531,378	1,544,320	721,658	717,480	<b>2,253,036</b>	<b>2,261,800</b>
Net Position - December 31	\$ 1,527,218	\$ 1,530,219	\$ 741,348	\$ 736,909	<b>\$ 2,268,567</b>	<b>\$ 2,267,128</b>

## GOVERNMENTAL REVENUES

The City is heavily reliant on three types of taxes to support governmental operations—more than 75% of the governmental activities revenue is derived from taxes. Charges for services represented 14% of these revenues, grants and contributions represented totaled 10%, and interest earnings made up the remaining 1%.

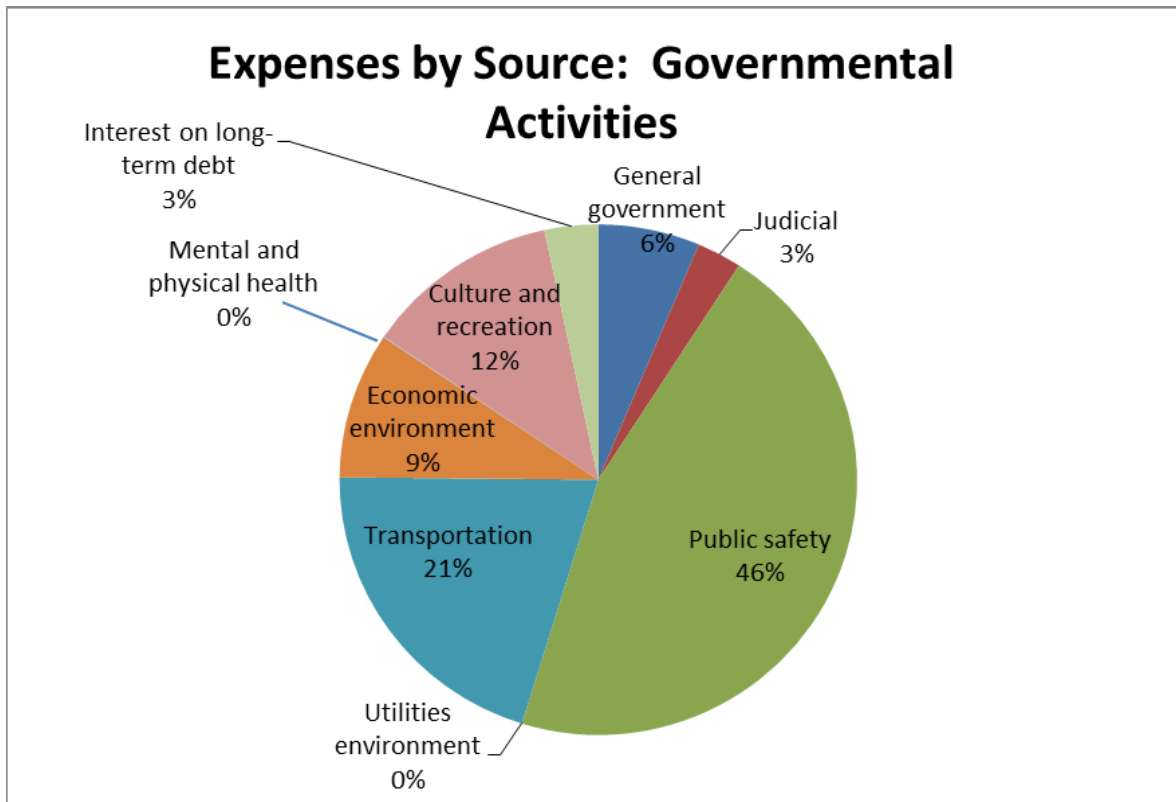
A breakdown of tax revenue is shown below.



For governmental activities, program revenues cover approximately 23% of governmental operating expenses. This means that the government's taxpayers and the City's other general revenues fund 77% of the governmental activities. As a result, the general economy and the local businesses have a major impact on the City's revenue streams.

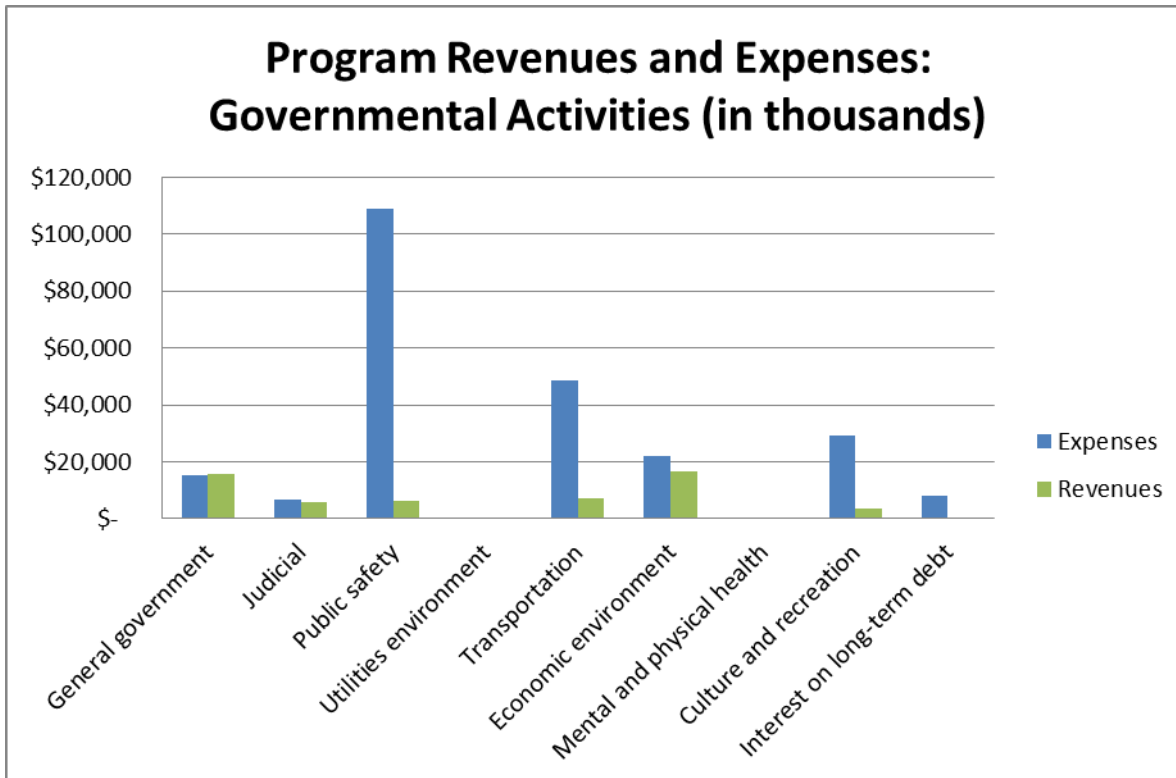
## GOVERNMENTAL FUNCTIONAL EXPENSES

Public safety continues to be a major priority of the City followed by transportation (streets) and culture and recreation (parks and libraries). At year-end, the allocation by program function is as follows:



The chart below presents the revenues and expenses of each of the city's programs. This net cost illustrates the financial burden that is placed on the City's taxpayers by each of these functions.





Program revenues did not cover the program expenses in any function in 2013. Of the capital contributions of \$7.2 million, \$2.0 million is related to Kendall Yards infrastructure from the Department of Commerce; \$1.2 million is capital contributions in the city's internal service funds, and \$4.0 million is related to streets from the Department of Transportation, the Washington State Department of Transportation, and the Washington Transportation Improvement Board.

### BUSINESS-TYPE ACTIVITIES Revenues vs. Costs

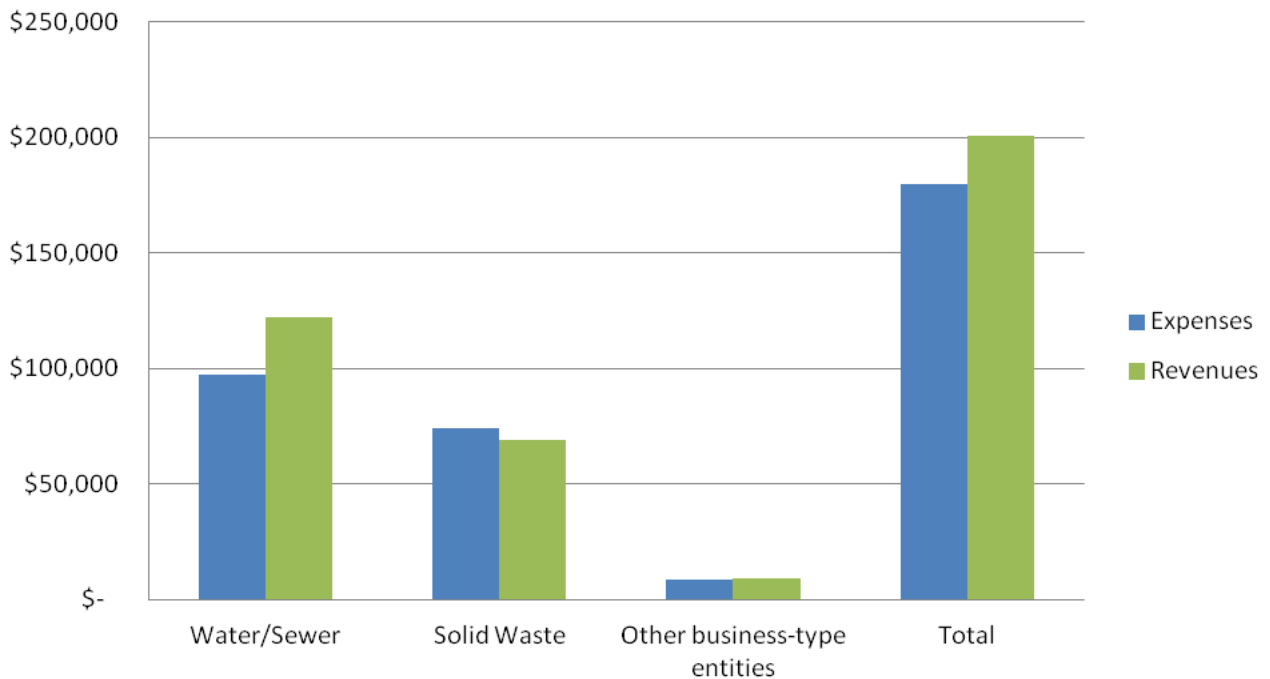
For all enterprise funds, the City reports a current ratio of 6.3 to 1, which is a healthy ratio. The business-type activities report capitalized assets of \$612 million, which provide a variety of services to the citizens of Spokane as well as some populations outside the city limits.

The business-type activities report \$139 million in unrestricted net position, which provide these funds with adequate resources to maintain service levels and invest in future infrastructure requirements.

The operating revenues for the City's four enterprise funds increased by \$8.9 million or 4.87% over the prior year, and operating expenses increased by \$2.5 million or 1.4% over 2012. The result is that operating income increased by \$6.3 million (\$14.6 million in 2013 compared to \$8.3 million in 2012). \$6.2 million of the increase in operating income is the result of increased operating revenue in the Water/Sewer fund due to increased water/sewer revenue and electric sales derived from the City's hydro plant. \$2.4 million of the increase is due to increased permits in the Building Services fund, and \$.3 million of the increase is attributable to solid waste revenue.

The chart below presents the revenues and expenses of each of the city's business-type activities. This net cost illustrates whether revenues are sufficient to meet current expenses.

## Program Revenues and Expenses: Business-Type Activities (in thousands)

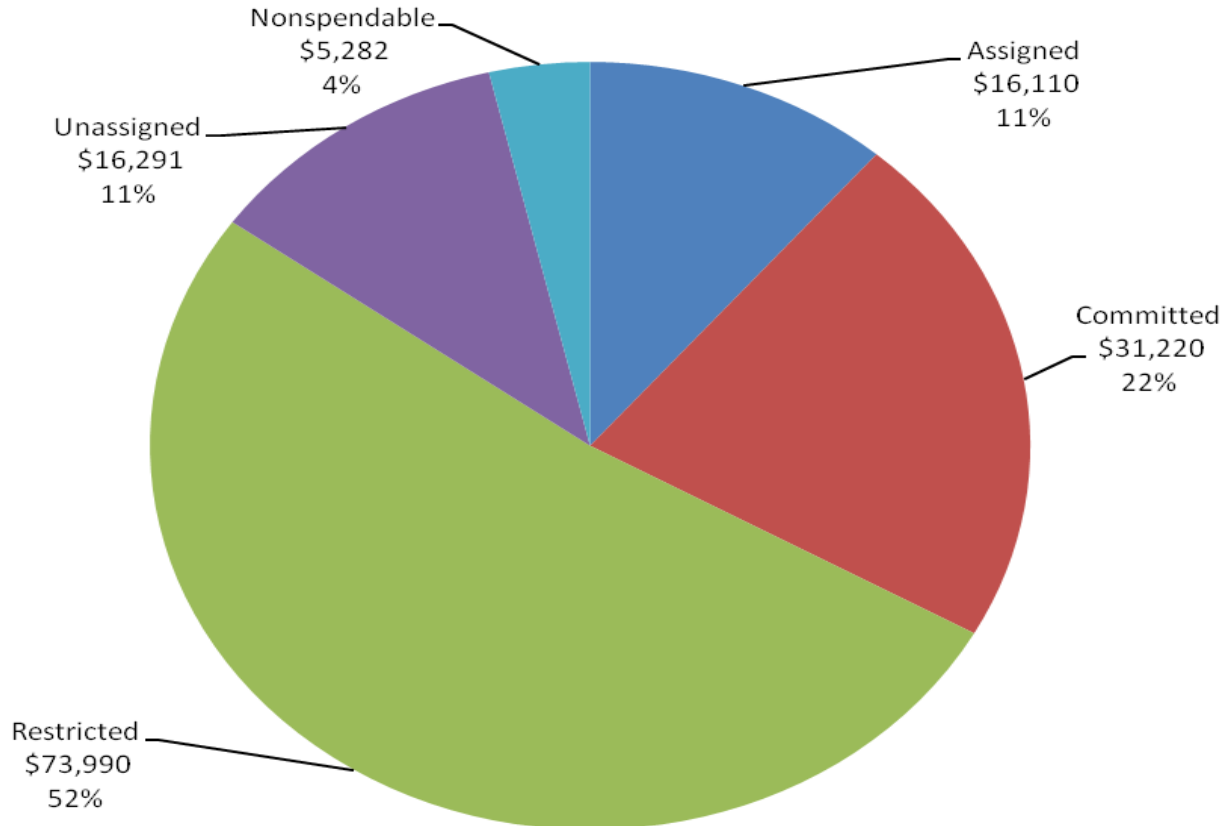


### Financial Analysis of the City's Funds

#### **Governmental funds**

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balance of \$142.8 million. Of this total, \$16.1 million is assigned and \$16.2 million is unassigned. This represents approximately 23% of the total fund balance, and this constitutes a fund balance that is accessible to meet the City's needs. The remainder of the governmental funds' fund balance includes \$5.2 million "not in spendable form" for items that are not expected to be converted to near-term cash such as internal loans; \$74.0 million restricted by external parties, including grantors and creditors, and \$31.3 million committed by the City's elected officials for specific purposes.

## Breakdown of Fund Balance: Governmental Funds (in thousands)



### **Major Governmental Funds**

**The General Fund** is the City's primary operating fund and the largest source of day-to-day service delivery. Pursuant to the implementation of GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the City has combined several special revenue funds with the general fund for financial reporting purposes. A schedule of the funds included in the General Fund information during 2013 is included as a supplemental schedule. The General Fund's fund balance decreased in 2013 by \$2.8 million, which is due to a reduction of the sale of capital assets in 2013.

Committed, assigned and unassigned fund balance in the General Fund was \$33.9 million, which as a percentage of expenditures was 25% of annual operations, compared with 27% at the end of 2012. The General Fund reserves are still considered adequate, and provide the City's management with the ability to effectively manage the economic slowdown and budgetary challenges that are facing many businesses and governments at this time. During the strong economic years in the middle of the previous decade, the City's management and elected officials committed to building a robust reserve to ensure the long-term financial health of the General Fund, and the fund balance at the end of 2013 reflects the results of this commitment. The steps taken to achieve this result and how the reserve has been managed during the current economic situation are discussed in the *Budgetary Highlights* section of this analysis.

Taxes totaling \$130.2 million made up 81% of total general fund revenue in 2013, an increase of \$2.4 million or 1.9% over 2012. The increase is attributable to the following:

\$2.0 million	Sales Taxes
\$ .4 million	Utility Taxes

Other significant revenue changes were decreases in intergovernmental revenue of \$2.4 million (\$.3 million reduction in grant revenue; \$.4 million reduction in liquor revenues from the State; and a \$1.6 million reduction in revenues from Spokane County related to a multi-year adjustment for cost allocation of the Public Safety building).

Charges for services decreased by \$.9 million in plan development revenues; \$1.3 million decrease in engineering service revenue; a \$.2 million increase in indirect cost revenue; and a \$.6 million increase in LID (local improvement district) revenues.

Misc revenue decreased by \$2.7 million due to a \$1.5 million reduction in interfund lease and rent revenue due to a one-time paydown of the YMCA property in 2012 and a \$1.2 million decrease in interest income. Of the decrease in interest income, \$.8 million is attributable to the change in the fair value of investments (from a net increase of \$.2 million in 2012 to a net decrease of \$.6 million in 2013).

General fund expenditures (excluding transfers) decreased \$2.6 million or approximately 2% over 2012. The City realized a net \$2.8 million decrease in salary/benefits and an overall increase of \$.2 million in all other expense categories. The change in salary/benefits is comprised of the following:

\$2.4 million	cost savings in engineering services
\$1.9 million	cost savings due to city reorganizations and the dissolution of city departments during 2013
\$1.5 million	increase in police and fire

### ***The Proprietary Funds***

The City reports four primary enterprise funds, two of which are considered major funds. These two funds provide the utility services of water/sewer and solid waste to the citizens of Spokane. The City also maintains nine internal service funds.

***The Water/Sewer Fund*** - The water/sewer fund reports net position of \$616 million, with 85% represented by capital assets. The current ratio for this fund is 8.27, which provides this fund with adequate resources to cover cash flow issues.

The water/sewer system reported operating income of \$19.8 million. The City's management and elected officials are strategically balancing the amount of utility expenses that the citizens of Spokane can afford with the need to maintain service delivery, maintain and improve the utility's infrastructure, and provide for growth. Currently, this involves setting utility rate increases to be consistent with the consumer price index and aggressively managing operating expenses. The aggressive management of operating expenses allows for operating revenues to be directed towards investments in the utility's infrastructure. The sewer system is subject to regulatory requirements that will require significant capital improvements over the next several years. Part of the 2013 operating income will be directed towards those regulatory requirements in the coming years.

***The Solid Waste Fund*** – The solid waste fund reports net position of \$108 million. The net investment in capital assets (i.e., the book value of the capital assets less related debt) is \$80 million. The current ratio for this fund is 4.3 which provides this fund with adequate resources to cover cash flow requirements. This fund reports \$27.8 million in unrestricted net position.

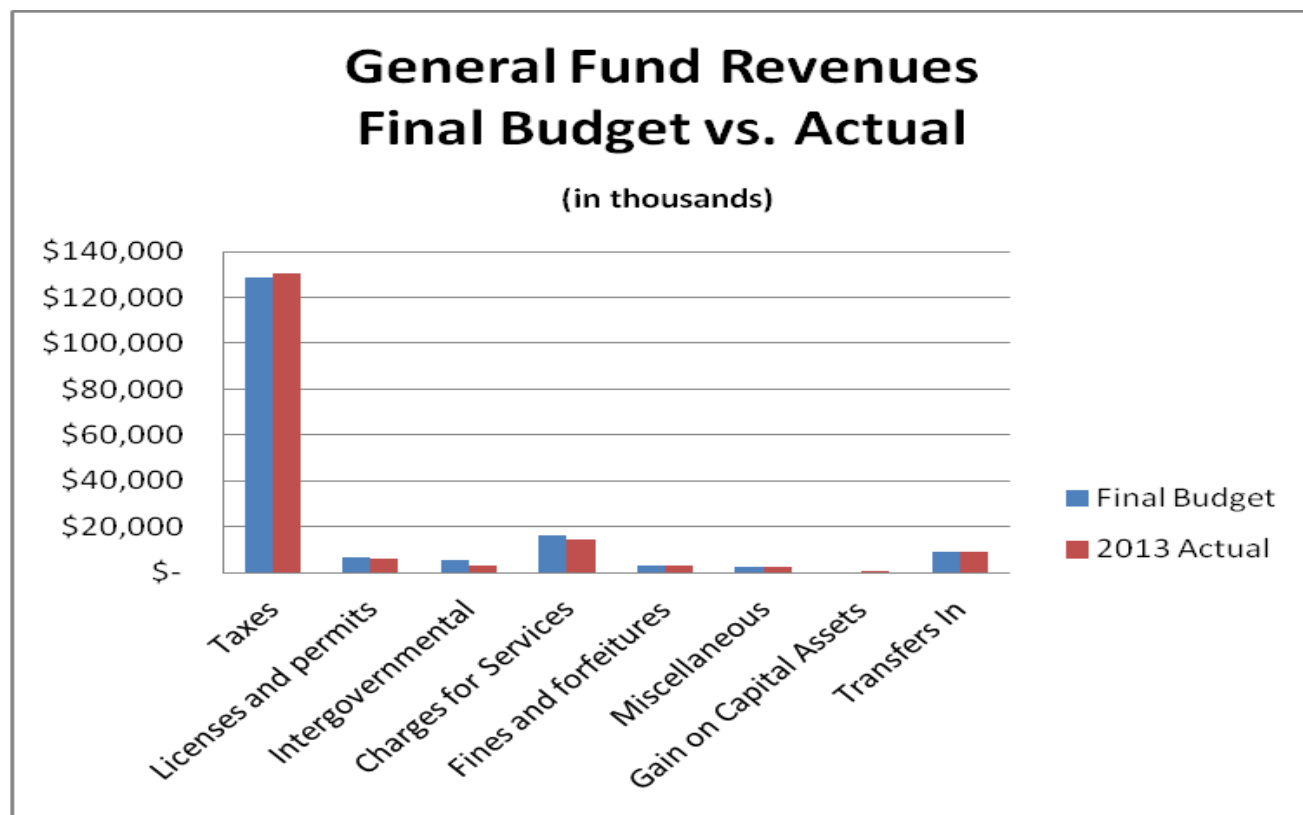
The solid waste fund reported an operating loss of \$5.7 million. \$1.0 million of the loss is due to an increase in depreciation expense that is consistent with a 5% reduction in depreciable assets. The remainder of the loss is

due, in part, to the fact that the rate revenue increases are not sufficient to cover the current operating expenses of the Department.

## Budgetary Highlights

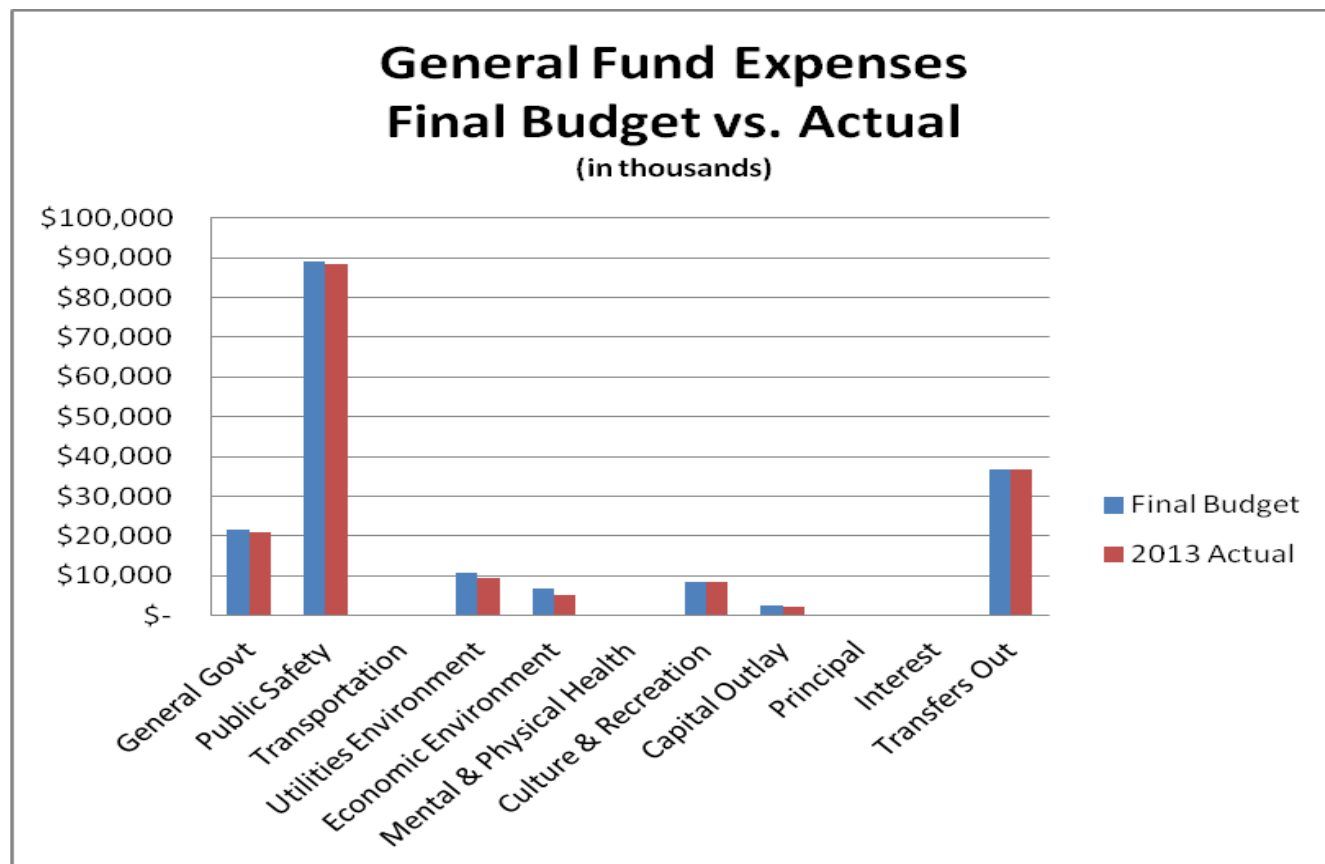
**The General Fund** – The General Fund's original revenue budget was \$1.0 million less than the 2012 actual results. The original expenditure budget was \$1.7 million less than the 2012 actual results. For the past several years, the City has strived to develop a budget that limits expenditures to anticipated revenue for the current year. The City Council amended both the revenue and expenditure budgets during 2013; the amendments resulted in less than 1/10<sup>th</sup> of 1% change between the original and final budget for revenues, and a 2.8% change for expenditures.

On the revenue side of the budget, the final budget exceeded actual revenues by \$3.0 million or less than 1/10<sup>th</sup> of 1%, although there were differences among the various categories. There was a favorable budget variance in taxes primarily due to higher than expected property and sales taxes of \$3.6 million. This was offset by a reduction of \$2.3 million in internal & external business and utility taxes; an unfavorable variance of \$2.0 million in intergovernmental due to a reduction in grant revenue; a reduction in liquor revenues from the State; a multi-year adjustment for cost allocation of the Public Safety building; and a \$1.4 million unfavorable variance in charges for services due to reorganizations or cost savings within city departments that are offset by eliminated or reduced expenses in those same areas. Overall, this unfavorable variance is offset by favorable budget variances of \$4.7 million in other areas.



The actual expenditures were approximately \$4.7 million less than the final budget, or 3.4% below budget. The largest variances between the final budget and the actual amounts were in the transportation and economic environment and categories. There were also positive budget variances in capital outlays and transfers out categories. Generally, these positive variances related to reduced expenditures across most of the general fund,

as the City's management and Council continues to recognize the effects of revenue shortfalls and adjust expenditures accordingly.



As indicated by the budgetary operating statement, the City staff considers the annual budget to be an extremely important document and attempts to include in the budget their best estimate of revenue and expenditures. In 2013, City staff continued to focus on the ongoing structural gap between the rates of growth of revenues versus expenditures in the General Fund, as well as the best way to deal with the ongoing economic reality. The City is also utilizing longer term budgetary projections to help the management and City Council make strategically sound budget decisions.

## Capital Assets and Debt Administration

### **Capital assets**

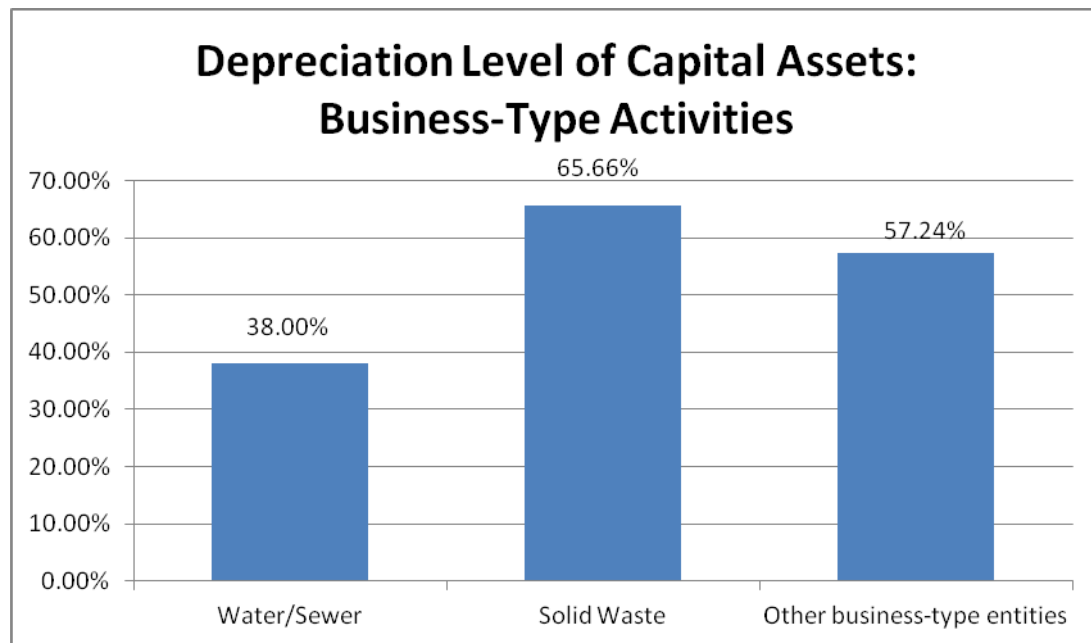
The City's investment in capital assets, net of accumulated depreciation, for governmental and business-type activities as of December 31, 2013, was \$1,549 million and \$612 million respectively. For 2013, there was no significant increase or decrease in either the governmental or business-type activities. See Note 4 for additional information about changes in capital assets during the fiscal year and amounts outstanding at the end of the year.

The following table provides a summary of capital assets.

	Governmental Activities		Business-Type Activities		Total	
Summary of Capital Assets (in thousands)	2013	2012	2013	2012	2013	2012
<b>NON-DEPRECIABLE ASSETS</b>						
Land	\$ 836,406	\$ 832,257	\$ 14,651	\$ 15,031	\$ 851,057	\$ 847,288
Construction in progress	31,824	68,870	59,952	55,261	91,776	124,131
<b>Total non-depreciable assets</b>	<b>868,231</b>	<b>901,127</b>	<b>74,603</b>	<b>70,292</b>	<b>942,834</b>	<b>971,419</b>
<b>DEPRECIABLE ASSETS</b>						
Buildings	87,266	86,648	291,352	288,547	378,618	375,195
Other improvements	81,688	69,084	73,867	64,641	155,555	133,725
Machinery and equipment	96,542	93,307	155,978	144,348	252,520	237,655
Infrastructure	1,000,574	959,261	453,533	458,121	1,454,108	1,417,382
Intangible assets	-	-	114	114	114	114
<b>Total depreciable assets</b>	<b>1,266,070</b>	<b>1,208,299</b>	<b>974,844</b>	<b>955,772</b>	<b>2,240,914</b>	<b>2,164,071</b>
<b>Total cost of capital assets</b>	<b>2,134,300</b>	<b>2,109,427</b>	<b>1,049,448</b>	<b>1,026,064</b>	<b>3,183,748</b>	<b>3,135,490</b>
<b>ACCUMULATED DEPRECIATION</b>	<b>(585,127)</b>	<b>(555,346)</b>	<b>(437,132)</b>	<b>(410,824)</b>	<b>(1,022,259)</b>	<b>(966,170)</b>
<b>Total book value of capital assets</b>	<b>\$ 1,549,173</b>	<b>\$ 1,554,081</b>	<b>\$ 612,316</b>	<b>\$ 615,240</b>	<b>\$ 2,161,489</b>	<b>\$ 2,169,321</b>
<b>Percentage depreciated</b>	<b>46%</b>	<b>46%</b>	<b>45%</b>	<b>43%</b>	<b>46%</b>	<b>45%</b>

At December 31, 2013 and December 31, 2012, the depreciable capital assets for governmental activities were 45%-46% depreciated.

With the City's business-type activities, 43%-45% of the asset values were depreciated at December 31, 2013 and at December 31, 2012. These percentages indicate that the City is maintaining and replacing their assets at a favorable rate. The percentage of depreciated assets for each of the three enterprise funds that report capital assets is as follows:



### **Long-term debt**

At the end of the fiscal year, the City had long-term debt outstanding of \$165.2 million. Of this amount, \$163.5 million or 92% is backed by the full faith and credit of the City (general obligation bonds) with debt service fully funded by voter-approved property taxes or general government revenue. The other major component of \$11.5 million is supported by pledged revenues generated primarily by the business-type activities of the City (loans from other governments).

During the year, the City retired \$12.6 million or 7.11% of the beginning outstanding borrowed debt balance.

	Governmental Activities		Business-Type Activities		Total	
Outstanding Borrowings	2013	2012	2013	2012	2013	2012
General obligation bonds	\$ 152,536,287	\$ 163,136,287	\$ 453,713	\$ 453,713	\$ 152,990,000	\$ 163,590,000
Special assessment debt	640,000	965,000	-	-	640,000	965,000
Revenue bonds	-	-	-	520,000	-	520,000
Other government/bank loans	1,404,806	1,614,579	10,179,027	11,167,657	11,583,833	12,782,236
Total	\$ 154,581,093	\$ 165,715,866	\$ 10,632,740	\$ 12,141,370	\$ 165,213,833	\$ 177,857,236

Long-term debt increased by \$.3 million during 2013, which was the result of an additional loan through the State of Washington for Sewer infrastructure. The terms of the loan have not been finalized but it is expected that the interest rate will be less than 3.0% and will have a twenty-year loan period. The debt per capita for the citizens of the City of Spokane was approximately \$783.

See Note 9 for additional information about the City's long-term debt.



**Economic Conditions Affecting the City**

Since one of the primary revenue streams for the City is sales tax, the City's sales tax revenues are subject to changes in the economy. Sales taxes are an "elastic" revenue stream; tax collections are higher in a flourishing economy and are lower in a depressed economy. While enjoying a strong economy in the middle of the last decade, the City of Spokane for the last several years has been dealing with the slow recovery from the nation-wide economic downturn. The City's management and elected officials are responding to the economic conditions with a balanced approach including cutting expenses, encouraging new business activity by minimizing tax increases, and using reserve balances strategically.

**Contacting the City's Financial Management**

This financial report is designed to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to public accountability. If you have questions about this report or would like to request additional information, please contact the City's Office of Finance, 808 West Spokane Falls Boulevard, Spokane, WA 99201.

**Statement of Net Position  
December 31, 2013**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 38,537,802	\$ 14,194,638	\$ 52,732,440
Equity in pooled investments	97,403,143	107,738,976	205,142,119
Receivables (net)	31,473,651	25,151,760	56,625,411
Internal balances	(8,490,694)	8,490,694	-
Inventories	2,751,521	2,482,879	5,234,400
Other assets	-	-	-
Restricted Assets:			
Cash and cash equivalents	-	10,505,120	10,505,120
Receivables , noncurrent	38,694,401	5,427,365	44,121,766
Other	-	-	-
Capital Assets (Note 4):			
Non-depreciable assets	868,230,514	74,603,258	942,833,772
Depreciable assets, net of depreciation	680,942,749	537,712,459	1,218,655,208
Total capital assets, net of depreciation	1,549,173,263	612,315,717	2,161,488,980
<b>Total Assets</b>	1,749,543,087	786,307,149	2,535,850,236
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	10,857,824	14,193,055	25,050,879
Accrued liabilities	-	-	-
Unearned revenue	24,708	31,222	55,930
Other liabilities, current	7,669,797	2,202,564	9,872,361
Long term liabilities (Note 9):			
Due within one year	28,888,124	1,620,939	30,509,063
Due within more than one year	174,884,546	26,910,911	201,795,457
<b>Total Liabilities</b>	222,324,999	44,958,691	267,283,690
<b>NET POSITION</b>			
Net investment in capital assets	1,433,814,440	601,682,977	2,035,497,417
Restricted for:			
Capital projects	26,208,119	-	26,208,119
Debt service	5,855,848	-	5,855,848
Grants/other	41,465,487	-	41,465,487
Police and firefighters' pension	403,498	-	403,498
Other	57,419	-	57,419
Unrestricted	19,413,277	139,665,481	159,078,758
<b>Total Net Position</b>	\$ 1,527,218,088	\$ 741,348,458	\$ 2,268,566,546

The notes to the financial statements are an integral part of this statement.

**Statement of Activities**  
**For the Fiscal Year Ended December 31, 2013**

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions
<b>Governmental Activities:</b>				
General government	\$ 15,180,765	\$ 14,697,250	\$ 93,246	\$ 881,320
Judicial	6,699,552	5,644,840	84,000	3,750
Public safety	109,027,215	5,560,995	714,987	82,176
Transportation	48,666,159	2,500,221	598,726	4,005,271
Utilities nvironment	-	-	-	159,128
Economic environment	22,152,576	1,865,779	14,655,137	167,220
Mental and physical health	118,107	281,636	-	-
Culture and recreation	29,132,669	1,471,969	13,377	1,970,269
Interest on long-term debt	7,995,151	-	-	-
<b>Total governmental activities</b>	<b>238,972,194</b>	<b>32,022,690</b>	<b>16,159,473</b>	<b>7,269,134</b>
<b>Business-Type Activities:</b>				
Water/Sewer	97,160,227	116,963,625	-	5,419,365
Solid Waste	74,174,306	68,985,805	-	-
Other business-type entities	8,606,778	9,171,609	-	-
<b>Total business-type activities</b>	<b>179,941,311</b>	<b>195,121,039</b>	<b>-</b>	<b>5,419,365</b>
<b>Total government</b>	<b>\$ 418,913,505</b>	<b>\$ 227,143,729</b>	<b>\$ 16,159,473</b>	<b>\$ 12,688,499</b>

The notes to the financial statements are an integral part of this statement.

**Statement of Activities**  
**For the Fiscal Year Ended December 31, 2013**

	<b>Net (Expense) Revenue and Change in Net Position</b>		
<b>Functions/Programs</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Governmental Activities:</b>			
General government	\$ 491,051	\$ -	\$ 491,051
Judicial	(966,962)	-	(966,962)
Public safety	(102,669,057)	-	(102,669,057)
Transportation	(41,561,941)	-	(41,561,941)
Utilities Environment	159,128	-	159,128
Economic environment	(5,464,440)	-	(5,464,440)
Mental and physical health	163,529	-	163,529
Culture and recreation	(25,677,054)	-	(25,677,054)
Interest on long-term debt	(7,995,151)	-	(7,995,151)
<b>Total governmental activities</b>	<b>(183,520,897)</b>	<b>-</b>	<b>(183,520,897)</b>
<b>Business-Type Activities:</b>			
Water/Sewer	-	25,222,763	25,222,763
Solid Waste	-	(5,188,501)	(5,188,501)
Other business-type entities	-	564,831	564,831
<b>Total business-type activities</b>	<b>-</b>	<b>20,599,093</b>	<b>20,599,093</b>
<b>Total government</b>	<b>\$ (183,520,897)</b>	<b>\$ 20,599,093</b>	<b>\$ (162,921,804)</b>
<b>General Revenues</b>			
Property taxes	63,700,832	-	63,700,832
Sales taxes	44,870,883	-	44,870,883
Utility taxes	55,400,483	-	55,400,483
Other taxes	13,868,049	-	13,868,049
Investment earnings	2,888,785	261,301	3,150,086
Net increase (decrease) in fair value of investments	(1,417,141)	(1,120,799)	(2,537,940)
Transfers	49,282	(49,282)	-
<b>Total general revenues and transfers</b>	<b>179,361,173</b>	<b>(908,780)</b>	<b>178,452,393</b>
<b>Change in Net Position</b>	<b>(4,159,724)</b>	<b>19,690,313</b>	<b>15,530,589</b>
Prior period adjustment	1,159,104	(15,251,015)	(14,091,911)
<b>Net Position - beginning (restated)</b>	<b>1,530,218,708</b>	<b>736,909,160</b>	<b>2,267,127,868</b>
<b>Net Position - ending</b>	<b>\$ 1,527,218,088</b>	<b>\$ 741,348,458</b>	<b>\$ 2,268,566,546</b>

The notes to the financial statements are an integral part of this statement.

# Balance Sheet

## Governmental Funds

### December 31, 2013

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 6,879,471	\$ 19,034,340	\$ 25,913,811
Deposits with fiscal agents/trustees	69,833	38,228	108,061
Equity in pooled investments	14,363,326	44,848,176	59,211,502
Taxes receivable	12,335,708	3,763,411	16,099,119
Special assessment receivable	-	3,059,371	3,059,371
Accounts receivable	2,808,852	1,479,506	4,288,358
Interest receivable	197,258	26,955	224,213
Due from other funds	5,256,194	2,515,268	7,771,462
Interfund loan receivable	166,931	519,563	686,494
Due from other governments	228,413	4,899,399	5,127,812
Advances to other funds	827,090	2,574,290	3,401,380
Inventories	-	1,194,392	1,194,392
Notes/contract receivable (non current)	233,777	38,434,621	38,668,398
<b>Total Assets</b>	<b>43,366,853</b>	<b>122,387,520</b>	<b>165,754,373</b>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Liabilities:</b>			
Accounts/vouchers payable	921,585	5,664,308	6,585,893
Due to other funds	985,599	1,874,702	2,860,301
Due to other governments	236	44,019	44,255
Revenues collected in advance	-	71,476	71,476
Interfund loan payable	-	-	-
Other accrued liabilities	3,153,649	764,122	3,917,771
Other current liabilities	860,663	2,448,015	3,308,678
Deferred inflow of resources	1,827,120	4,244,611	6,071,731
<b>Total Liabilities</b>	<b>7,748,852</b>	<b>15,111,253</b>	<b>22,860,105</b>
<b>Fund Balance</b>			
Nonspendable	994,020	4,288,245	5,282,265
Restricted for:			
Capital projects	-	26,208,119	26,208,119
Police and firefighters' pensions	-	403,498	403,498
Grants/other	636,836	40,828,651	41,465,487
Debt service	-	5,855,848	5,855,848
Other	-	57,419	57,419
Committed	15,014,310	16,205,661	31,219,971
Assigned	2,681,650	13,428,826	16,110,476
Unassigned	16,291,185	-	16,291,185
<b>Total Fund Balance</b>	<b>\$ 35,618,001</b>	<b>\$ 107,276,267</b>	<b>\$ 142,894,268</b>

The notes to the financial statements are an integral part of this statement.

**Reconciliation of the Balance Sheet  
to the Statement of Net Position  
Governmental Funds  
December 31, 2013**

<b>Total Fund Balance of Governmental Funds</b>	<b>\$</b>	<b>142,894,268</b>
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Non-depreciable assets	859,659,849	
Depreciable assets	1,199,986,735	
Less: Accumulated depreciation	(549,777,304)	
Total capital assets		1,509,869,280

Some of the city's revenues will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		6,208,109
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Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.		53,290,832
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Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:

Bonds payable	(152,536,287)	
Deferred amounts on bond issuance	(3,736,628)	
Special assessment debt	(640,000)	
Due to other governments	(1,404,806)	
OPEB (other postemployment benefits) liability	(13,092,216)	
Accrued interest on bonds	(686,121)	
Compensated absences	(12,948,343)	
Total long term liabilities		(185,044,401)

<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b>1,527,218,088</b>
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The notes to the financial statements are an integral part of this statement.

**Statement of Revenues, Expenditures, and Changes in Fund Balance  
Governmental Funds  
For the Fiscal Year Ended December 31, 2013**

	General Fund	Other Governmental Funds	Total
<b>REVENUES</b>			
Taxes	\$ 130,269,475	\$ 40,016,459	\$ 170,285,934
Licenses and permits	6,424,954	504,284	6,929,238
Intergovernmental	3,267,477	32,139,492	35,406,969
Charges for services	14,583,391	11,127,352	25,710,743
Fines and forfeitures	2,862,356	1,980,779	4,843,135
Miscellaneous	1,058,969	4,417,726	5,476,695
Interest income	1,881,602	368,197	2,249,799
Net increase (decrease) in fair value of investments	(630,466)	(424,478)	(1,054,944)
<b>Total Revenues</b>	<b>159,717,758</b>	<b>90,129,811</b>	<b>249,847,569</b>
<b>EXPENDITURES</b>			
<b>Current:</b>			
General government	21,852,608	8,713,465	30,566,073
Public safety	89,789,347	21,845,026	111,634,373
Utilities environment	-	-	-
Transportation	7,324,204	20,453,511	27,777,715
Economic environment	5,178,683	16,356,955	21,535,638
Mental and physical health	118,064	-	118,064
Culture and recreation	8,278,029	14,979,271	23,257,300
<b>Capital outlays</b>	<b>2,216,660</b>	<b>25,048,922</b>	<b>27,265,582</b>
<b>Debt service:</b>			
Principal	-	11,134,771	11,134,771
Interest	-	7,762,321	7,762,321
<b>Total Expenditures</b>	<b>134,757,595</b>	<b>126,294,242</b>	<b>261,051,837</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>24,960,163</b>	<b>(36,164,431)</b>	<b>(11,204,268)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Sale of capital assets	74,604	2,241,338	2,315,942
Transfers in	400,946	33,128,249	33,529,195
Transfers out	(27,783,338)	(9,679,265)	(37,462,603)
<b>Total Other Financing Sources (Uses)</b>	<b>(27,307,788)</b>	<b>25,690,322</b>	<b>(1,617,466)</b>
<b>Excess (deficiency) of revenues and other sources over (under) expenditures and other uses</b>	<b>(2,347,625)</b>	<b>(10,474,109)</b>	<b>(12,821,734)</b>
<b>Other Changes in Fund Balance</b>			
Prior Period Adjustment	(544,521)	577,095	32,574
<b>Fund Balance - beginning (restated)</b>	<b>38,510,147</b>	<b>117,173,281</b>	<b>155,683,428</b>
<b>Fund Balance - ending</b>	<b>\$ 35,618,001</b>	<b>\$ 107,276,267</b>	<b>\$ 142,894,268</b>

The notes to the financial statements are an integral part of this statement.

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the  
Statement of Activities  
For the Fiscal Year Ended December 31, 2013**

<b>Change in fund balance - governmental funds</b>	<b>\$</b>	<b>(12,821,734)</b>
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, capital outlays did not exceed depreciation expense:

Capital outlays	26,831,160	
Depreciation expense	(30,907,306)	
		(4,076,146)

In the Statement of Activities, only the loss on the sale of capital assets is reported whereas in the governmental funds, the proceeds from the sale of capital assets increase financial resources. Thus, the change in fund balance differs from the change in net position by the cost of capital assets sold.

Capital assets sold	(6,419,823)	
Less accumulated depreciation	2,993,465	
		(3,426,358)

Some revenues in the governmental funds that were not available until the current year were reported in prior years in the Statement of Activities.	131,418
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Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. This is the amount payments exceeded proceeds:

Principal repayments - general obligation debt	10,600,000	
Principal repayments - special assessment debt	325,000	
Principal repayments - due to other governments	209,773	
Bond proceeds	-	
		11,134,773

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

(Increase) decrease in OPEB (other postemployment benefit) liability	(2,565,091)	
(Increase) decrease in compensated absences	2,441,009	
(Increase) decrease in accrued interest	32,327	
(Increase) decrease in deferred amounts on bond issuance	392,141	
		300,386

Internal service funds are used by management to charge the costs of certain activities such as fleet management and insurance to individual funds. The net gain of internal service funds is reported with governmental activities.

	<b>\$</b>	<b>(4,159,724)</b>
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The notes to the financial statements are an integral part of this statement.



**Statement of Net Position  
Proprietary Funds  
December 31, 2013**

	<b>Business-Type Activities - Enterprise Funds</b>				continued
	<b>Water/Sewer</b>	<b>Solid Waste</b>	<b>Other Enterprise Funds</b>	<b>Total</b>	<b>Governmental Activities Internal Service</b>
<b>ASSETS</b>					
<b>Current Assets:</b>					
Cash and equivalents	\$ 6,276,462	\$ 6,510,252	\$ 1,347,011	\$ <b>14,133,725</b>	\$ 10,657,546
Deposits with fiscal agents	50,915	9,998	-	<b>60,913</b>	1,858,384
Equity in pooled investments	78,340,531	27,843,781	1,554,665	<b>107,738,977</b>	38,191,641
Accounts receivable	12,583,829	5,453,639	279,130	<b>18,316,598</b>	2,659,447
Interest receivable	27,263	13,316	698	<b>41,277</b>	13,437
Due from other funds	935,432	661,859	160,972	<b>1,758,263</b>	2,926,243
Interfund loan receivable	909,957	444,898	18,079	<b>1,372,934</b>	443,338
Due from other governments	6,541,766	252,119	-	<b>6,793,885</b>	1,894
Inventories	2,434,703	-	48,176	<b>2,482,879</b>	1,557,129
Prepayments	-	-	-	<b>-</b>	26,003
Equity in pooled investments, restricted	-	10,505,120	-	<b>10,505,120</b>	-
Interest receivable, restricted	-	-	-	<b>-</b>	-
Total current assets	108,100,858	51,694,982	3,408,731	<b>163,204,571</b>	58,335,062
<b>Noncurrent assets:</b>					
Non depreciable capital assets:					
Land	8,690,813	4,671,178	1,289,224	<b>14,651,215</b>	6,281,199
Construction in progress	54,028,468	5,923,575	-	<b>59,952,043</b>	2,289,466
Depreciable capital assets:					
Property, plant, and equipment	289,362,747	216,221,308	15,585,865	<b>521,169,920</b>	53,212,326
Infrastructure	453,533,190	-	27,518	<b>453,560,708</b>	6,261,641
Capitalized software	-	-	-	<b>-</b>	6,609,005
Intangible assets	113,766	-	-	<b>113,766</b>	-
Less accumulated depreciation	(282,343,425)	(145,852,059)	(8,936,451)	<b>(437,131,935)</b>	(35,349,654)
Total capital assets	523,385,559	80,964,002	7,966,156	<b>612,315,717</b>	39,303,983
<b>Other noncurrent assets:</b>					
Other noncurrent assets and deferred charges	5,396,420	30,945	-	<b>5,427,365</b>	-
Advances to other funds	4,508,566	2,204,336	89,578	<b>6,802,480</b>	2,196,600
Total noncurrent assets	533,290,545	83,199,283	8,055,734	<b>624,545,562</b>	41,500,583
Total assets	641,391,403	134,894,265	11,464,465	<b>787,750,133</b>	99,835,645

The notes to the financial statements are an integral part of this statement.

**Statement of Net Position  
Proprietary Funds  
December 31, 2013**

	<b>Business-Type Activities - Enterprise Funds</b>				concluded
	<b>Water/Sewer</b>	<b>Solid Waste</b>	<b>Other Enterprise Funds</b>	<b>Total</b>	<b>Governmental Activities Internal Service</b>
<b>LIABILITIES</b>					
<b>Current Liabilities:</b>					
Accounts payable	\$ 5,105,190	\$ 8,943,067	\$ 94,759	\$ <b>14,143,016</b>	\$ 3,478,782
Claims and judgments payable	-	-	-	-	17,352,724
Compensated absences	163,472	35,568	38,472	<b>237,512</b>	122,292
Due to other funds	5,054,136	2,395,568	117,009	<b>7,566,713</b>	2,028,954
Interfund loan payable	-	-	-	-	14,903,225
Due to other governmental units	1,383,427	-	-	<b>1,383,427</b>	107,028
Accrued interest	50,039	-	-	<b>50,039</b>	-
Other accrued liabilities	738,992	464,575	133,647	<b>1,337,214</b>	399,093
Other current liabilities	575,030	155,620	134,700	<b>865,350</b>	89,610
Total current liabilities	13,070,286	11,994,398	518,587	<b>25,583,271</b>	38,481,708
<b>Current liabilities payable from restricted assets:</b>					
Revenue bonds payable	-	-	-	-	-
Accrued interest payable	-	-	-	-	-
Total current liabilities payable from restricted assets	-	-	-	-	-
<b>Noncurrent Liabilities:</b>					
Revenue bonds payable	-	-	-	-	-
General obligation bonds payable	-	-	453,712	<b>453,712</b>	-
Due to other governmental units	8,919,738	-	-	<b>8,919,738</b>	-
Revenue collected in advance	-	1,235	29,987	<b>31,222</b>	-
Compensated absences	2,953,214	1,215,474	510,593	<b>4,679,281</b>	1,939,375
Accrued landfill liability	-	1,689,660	-	<b>1,689,660</b>	-
Accrued landfill postclosure liability	-	11,168,520	-	<b>11,168,520</b>	-
Total noncurrent liabilities	11,872,952	14,074,889	994,292	<b>26,942,133</b>	1,939,375
<b>Total Liabilities</b>	<b>24,943,238</b>	<b>26,069,287</b>	<b>1,512,879</b>	<b>52,525,404</b>	<b>40,421,083</b>
<b>NET POSITION</b>					
Net investments in capital assets	513,206,531	80,964,002	7,512,444	<b>601,682,977</b>	24,293,730
Restricted	-	-	-	-	-
Unrestricted	103,241,634	27,860,976	2,439,142	<b>133,541,752</b>	35,120,832
<b>Total Net Position</b>	<b>\$ 616,448,165</b>	<b>\$ 108,824,978</b>	<b>\$ 9,951,586</b>	<b>\$ 735,224,729</b>	<b>\$ 59,414,562</b>
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds				6,123,730	
Net position of business-type activities				<u>\$ 741,348,459</u>	

The notes to the financial statements are an integral part of this statement.

**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
**For the Fiscal Year Ended December 31, 2013**

	<b>Business-Type Activities - Enterprise Funds</b>				<b>Governmental Activities Internal Service</b>
	<b>Water/Sewer</b>	<b>Solid Waste</b>	<b>Other Enterprise Funds</b>	<b>Total</b>	
<b>OPERATING REVENUES</b>					
Charges for goods and services	\$ 115,126,216	\$ 66,083,041	\$ 9,113,840	\$ 190,323,097	\$ 41,761,289
Miscellaneous revenue	-	1,343,001	34,469	1,377,470	36,879,760
Other operating revenue	199,228	-	13,780	213,008	872,752
Total operating revenues	115,325,444	67,426,042	9,162,089	191,913,575	79,513,801
<b>OPERATING EXPENSES</b>					
Operations	23,208,029	46,559,859	4,924,245	74,692,133	26,570,462
Maintenance	17,367,578	4,784,235	1,160,372	23,312,185	-
Administration	9,571,593	2,666,883	1,521,282	13,759,758	8,627,349
Depreciation	19,014,834	10,211,535	930,317	30,156,686	4,223,212
Taxes	26,362,075	8,954,193	19,469	35,335,737	-
Risk transfer payments	-	-	-	-	13,327,233
Claims processing	-	-	-	-	1,835,751
Payments to claimants and beneficiaries	-	-	-	-	25,451,966
Total operating expenses	95,524,109	73,176,705	8,555,685	177,256,499	80,035,973
Operating Income (Loss)	19,801,335	(5,750,663)	606,404	14,657,076	(522,172)
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Interest income	175,828	73,454	12,019	261,301	124,527
Net increase (decrease) in fair value of investments	(742,775)	(363,219)	(14,805)	(1,120,799)	(362,197)
Gain (loss) on disposition of fixed assets	320,000	(6,143)	-	313,857	284,706
Interest expense	(126,932)	-	(28,174)	(155,106)	(328,649)
Revenues from jobbing and contracting	660,082	-	-	660,082	-
Expenses from jobbing and contracting	(892,252)	-	-	(892,252)	-
LID losses and engineering expenses	(608,281)	-	-	(608,281)	-
Rent and lease income	586,149	178,916	-	765,065	-
Other nonoperating revenue	71,950	1,380,847	9,520	1,462,317	157,598
Other nonoperating expense	-	(983,722)	(22,119)	(1,005,841)	-
Total nonoperating revenues (expenses)	(556,231)	280,133	(43,559)	(319,657)	(124,015)
Income (loss) before contributions and transfers	19,245,104	(5,470,530)	562,845	14,337,419	(646,187)
Capital contributions	5,419,365	-	-	5,419,365	1,244,613
Transfers in	-	-	-	-	4,205,351
Transfers out	(20,400)	(3,672)	(25,210)	(49,282)	(222,662)
Change in Net Position	24,644,069	(5,474,202)	537,635	19,707,502	4,581,115
Prior period adjustment	(15,251,015)	-	-	(15,251,015)	1,758,974
Net Position - beginning	607,055,111	114,299,180	9,413,951		53,074,473
Net Position - ending	\$ 616,448,165	\$ 108,824,978	\$ 9,951,586		\$ 59,414,562
Change in Net Position				19,707,502	
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds				(17,188)	
Change in net position of business-type activities				\$ 19,690,314	

The notes to the financial statements are an integral part of this statement.

**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended December 31, 2013**

	<b>Business-Type Activities - Enterprise Funds</b>					
	<b>Water/Sewer</b>	<b>Solid Waste</b>	<b>Other Enterprise Funds</b>	<b>Total</b>	<b>Governmental Activities Internal Service</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Receipts from customers and users	\$ 114,053,807	\$ 70,498,740	\$ 8,608,893	\$ 193,161,440	\$ 1,912,362	
Receipts from interfund services provided	1,990,149	(176,777)	326,762	2,140,134	76,454,631	
Payments to suppliers for services	(8,400,186)	(51,240,123)	(1,028,338)	(60,668,647)	(52,149,448)	
Payments to employees	(27,633,822)	(739,249)	(4,973,410)	(33,346,481)	(16,740,743)	
Payment for taxes - city and state	(23,981,661)	(7,753,645)	(19,469)	(31,754,775)	(164,156)	
Payments for interfund services received	(17,506,129)	(1,715,287)	(1,220,905)	(20,442,321)	(3,787,397)	
Other receipts (payments)	(20,208,139)	-	-	(20,208,139)	(1,472,274)	
Net cash provided (used) by operating activities	18,314,019	8,873,659	1,693,533	28,881,211	4,052,975	
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Transfers in (out)	(9,123)	-	-	(9,123)	(172)	
Net cash provided (used) by noncapital financing activities	(9,123)	-	-	(9,123)	(172)	
<b>CASH FLOWS FROM CAPITAL &amp; RELATED FINANCING ACTIVITIES</b>						
Proceeds from disposal of capital assets	(416,724)	4,249,179	-	3,832,455	393,651	
Proceeds from loans, notes, and lease purchase payable	380,591	-	-	380,591	-	
Capital grants and contributions received	5,437,307	-	-	5,437,307	-	
Acquisition and construction of capital assets	(15,679,371)	(14,969,267)	(120,314)	(30,768,952)	(10,975,826)	
Principal paid on intergovernmental loans	(1,357,566)	-	-	(1,357,566)	-	
Principal paid on revenue bonds	-	-	(514,962)	(514,962)	-	
Interest paid on interfund loans	-	-	-	-	(328,649)	
Interest paid on intergovernmental loans	(149,961)	-	-	(149,961)	-	
Interest paid on revenue bonds	-	-	(32,341)	(32,341)	-	
Interest paid on general obligation bonds	-	-	-	-	-	
Transfers in (out)	(11,277)	(3,672)	(25,210)	(40,159)	5,227,474	
Net cash provided (used) by capital and related financing activities	(11,797,001)	(10,723,760)	(692,827)	(23,213,588)	(5,683,350)	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Purchase of investments	(11,651,250)	(4,129,196)	(1,601,024)	(17,381,470)	(7,814,335)	
Proceeds from sales and maturities of investments	4,400,000	7,531,595	1,178,697	13,110,292	9,087,934	
Interest received	(571,843)	(284,123)	4,191	(851,775)	89,284	
Net cash provided (used) by investing activities	(7,823,093)	3,118,276	(418,136)	(5,122,953)	1,362,883	
Net increase (decrease) in cash and cash equivalents	(1,315,198)	1,268,175	582,570	535,547	(267,664)	
Cash and cash equivalents - January 1	7,591,660	5,242,077	764,441	13,598,178	10,925,210	
Cash and cash equivalents - December 31	\$ 6,276,462	\$ 6,510,252	\$ 1,347,011	\$ 14,133,725	\$ 10,657,546	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Operating Income (Loss)	\$ 19,801,335	\$ (5,750,663)	\$ 606,404	\$ 14,657,076	\$ (522,172)	
<b>Adjustments to Reconcile Operating Income</b>						
Depreciation & amortization	19,014,834	10,211,535	930,317	30,156,686	4,223,212	
Prior period adjustment/fund balance restatement	(15,251,015)	-	-	(15,251,015)	286,700	
Other revenues	1,318,181	1,559,763	(12,599)	2,865,345	157,598	
Other expenses	(1,500,533)	(983,722)	-	(2,484,255)	-	
<b>Change in Assets: Decrease (Increase)</b>						
Receivables, net of allowance	(2,480,225)	1,336,412	(213,747)	(1,357,560)	(2,021,545)	
Deposits with fiscal agents	-	(4,023)	-	(4,023)	(739,668)	
Inventories	22,545	-	-	22,545	(220,471)	
Prepayments	-	-	-	-	8,486	
<b>Change in Liabilities: Increase (Decrease)</b>						
Payables	(2,611,103)	2,504,357	383,158	276,412	2,880,835	
Net Cash provided (used) by operating activities	\$ 18,314,019	\$ 8,873,659	\$ 1,693,533	\$ 28,881,211	\$ 4,052,975	
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>						
Contributions of capital assets	\$ 833,007	\$ -	\$ -	\$ -	\$ -	

The notes to the financial statements are an integral part of this statement.

**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**December 31, 2013**

	Pension and Other Employee Benefit Plans	Private-Purpose Trust Funds	Agency Funds
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash	\$ 833,879	\$ 1,573	\$ 2,863,563
Equity in pooled investments	-	-	1,541,855
Short term investments	4,354,976	-	-
Deposits with fiscal agents/trustees	-	-	-
Receivables, pension and other employee benefit plans:			
Interest and dividends	223,393	-	-
Taxes receivable	450,000	-	-
Other receivables	27,057	8,658	113,854
Due from other funds	-	-	-
Due from other governments	-	-	1,247
<b>Total Current Assets</b>	<b>5,889,305</b>	<b>10,231</b>	<b>4,520,519</b>
<b>Noncurrent Assets:</b>			
Investments, noncurrent, at fair value:			
U.S. fixed income	53,937,391	-	-
International/global fixed income	14,829,284	-	-
U.S. equities	97,909,114	-	-
Real estate	14,223,774	-	-
International equities	53,140,765	-	-
Alternatives	68,191,034	-	-
Total investments	302,231,362	-	-
Capital assets:			
Software	477,000	-	-
Other improvements	17,539	-	-
Accumulated depreciation	(64,362)	-	-
Investments, noncurrent, all other funds:			
Other non current assets	-	-	-
<b>Total Noncurrent Assets</b>	<b>302,661,539</b>	<b>-</b>	<b>-</b>
<b>Total Assets</b>	<b>308,550,844</b>	<b>10,231</b>	<b>\$ 4,520,519</b>
<b>LIABILITIES</b>			
Warrants payable	-	-	2,058,040
Accounts/vouchers payable	178,333	-	22,352
Due to other funds	-	-	-
Due to other governments	-	-	2,350,803
Compensated absences	18,419	-	-
Other accrued liabilities	4,070	-	1,804
Other current liabilities	31,878	-	47,520
Other long-term liabilities	-	-	40,000
<b>Total Liabilities</b>	<b>232,700</b>	<b>-</b>	<b>\$ 4,520,519</b>
<b>NET POSITION</b>			
Net assets held in trust for:			
Pension benefits	295,225,928	-	
Postemployment benefits	13,092,216	-	
Individuals, organizations, and other governments	-	10,231	
<b>Total Net Position</b>	<b>\$ 308,318,144</b>	<b>\$ 10,231</b>	

The notes to the financial statements are an integral part of this statement.

**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds**  
**For the Fiscal Year Ended December 31, 2013**

	Pension Trust Funds	Private Purpose Trust Funds	Total
<b>ADDITIONS</b>			
Contributions:	\$ -	\$ -	\$ -
Employer	15,183,337	-	15,183,337
Plan Members	6,715,376	-	6,715,376
Intergovernmental revenue	263,334	-	263,334
Medicare retiree drug subsidy	218,514	-	218,514
Miscellaneous	290	-	290
Private contributions	-	13,625	13,625
<b>Total Contributions</b>	<b>22,380,851</b>	<b>13,625</b>	<b>22,394,476</b>
Investment Earnings:			
Net increase in fair value of investments	40,352,202	-	40,352,202
Interest and dividends	5,431,406	-	5,431,406
<b>Total investment earnings (loss)</b>	<b>45,783,608</b>	<b>-</b>	<b>45,783,608</b>
Less: Investment expense	(410,602)	-	(410,602)
<b>Net investment earnings (loss)</b>	<b>45,373,006</b>	<b>-</b>	<b>45,373,006</b>
<b>Total Additions</b>	<b>67,753,857</b>	<b>13,625</b>	<b>67,767,482</b>
<b>DEDUCTIONS</b>			
Benefits	22,309,770	-	22,309,770
Medical and dental benefits	4,862,903	-	4,862,903
Pension refunds	393,954	-	393,954
Medical and dental administration	433,275	-	433,275
Administrative expenses	518,809	-	518,809
Maintenance costs	-	7,456	7,456
<b>Total Deductions</b>	<b>28,518,711</b>	<b>7,456</b>	<b>28,526,167</b>
<b>Change in Fiduciary Net Position</b>	<b>39,235,146</b>	<b>6,169</b>	<b>39,241,315</b>
<b>Other Changes in Net Position</b>			
Prior Period Adjustment	-	-	-
<b>Net Position - beginning</b>	<b>269,082,998</b>	<b>4,062</b>	<b>269,087,060</b>
<b>Net Position - ending</b>	<b>\$ 308,318,144</b>	<b>\$ 10,231</b>	<b>\$ 308,328,375</b>

The notes to the financial statements are an integral part of this statement.

## Note 1

### Summary of Significant Accounting Policies

The City of Spokane was incorporated November 29, 1881 with a population of 1,000 people and an area of two square miles. Today, over one hundred years later, the City's population is approximately 209,100 people within an area of about 60.2 square miles. The City's first charter was adopted December 28, 1910, with a Commission form of government. On January 1, 2001 the City began operating under the Strong Mayor-Council form of government that was adopted November 7, 2000.

The accounting policies of the City of Spokane conform to generally accepted accounting principles, as applicable to governments. The accompanying summary of the City of Spokane's more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies, as presented, should be viewed as an integral part of the accompanying financial statements.

In June 2010, the Governmental Accounting Standards Board (GASB) established the standards of accounting and financial reporting for Fund Balance Reporting with GASB 54. This Statement is effective for periods beginning after June 15, 2010. This statement was designed to provide consistent fund balance classifications among governmental funds and to better understand the constraints imposed on stated fund balances.

#### A. REPORTING ENTITY

The accompanying financial statements of the City of Spokane include all funds, activities and functions over which the City's executive and legislative bodies exercise oversight responsibility. Oversight responsibility is derived from the City's power and includes, but is not limited to: (a) financial interdependency, (b) selection of governing authority, (c) designation of management, (d) ability to significantly influence operations, and (e) accountability for fiscal matters.

The most significant manifestation of oversight is financial interdependency. This includes the responsibility for financing deficits, entitlement to

surpluses, and guarantees of "moral responsibility" for debt.

Included in the accompanying financial statements are several funds that are administered by independent boards. These include the Library fund, Parks fund, Employees' Retirement fund, Firefighters' Pension fund, and the Police Pension fund. These organizations meet the criteria for inclusion in the City's financial statements.

The following organizations are not part of the City of Spokane and are excluded from the accompanying financial statements:

#### Community Colleges of Spokane

The governing body is appointed by the Governor of the State of Washington. The City has no oversight responsibility nor does any financial interdependency exist between the two entities.

#### Spokane School District #81

The voters of the school district elect the governing body and taxes are levied by the school district itself. The City has no oversight responsibility nor does any financial interdependency exist between the two entities.

#### Spokane Housing Authority

The governing body is appointed by the Mayor of the City. It is an independent entity that does not have taxing authority, but can issue bonds. State law provides that liabilities incurred by them be satisfied from their assets and that no person shall have any right of action against the City on account of their debts, obligations and liabilities. The City does not, therefore, have oversight responsibility nor does any financial interdependency exist between the two entities.

#### Spokane Transit Authority

The governing body is appointed jointly by the City and Spokane County. Small cities in the Spokane Transit Authority service area also elect a representative. The City has no oversight responsibility nor does any financial interdependency exist.

#### Spokane Public Facilities District

The governing board consists of five members. Two are appointed by the City, two by Spokane County, and the fifth member is selected by the other four members. The City has no oversight responsibility nor does any financial interdependency exist.

### **Blended Component Units**

Blended component units, although legally separate entities, are those considered to be part of city's operation in substance. They are financially accountable to the city, or have relationships with the city such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. These entities are reported as blended component units because city officials either serve on or appoint the members of the governing bodies of the authorities. The city also has the ability to influence the operations of the authorities through legislation.

The Northeast Public Development Authority was created to invest in community outreach, infrastructure, economic development partnerships, and land development to create business and job opportunities within the northeast development target area. As of December 31, 2013, there were no financial transactions that are reported in the city's financial statements.

The University Public Development Authority was established to cultivate an urban, university district environment favorable to development. As of December 31, 2013, there were no financial transactions that are reported in the city's financial statements.

The Spokane Transportation Benefit District (TBD) was created to make transportation improvements consistent with existing state, regional, and local transportation plans. The financial transactions of the TBD are shown in the *Combining Statement of Changes in Assets and Liabilities, Agency Funds*.

### **Joint Ventures**

The City participates in two joint ventures. These include the Spokane International Airport and the Spokane Regional Transportation Council. The Spokane Regional Transportation Council is accounted for by the City in an Agency fund. The Spokane International Airport is not part of the City and is excluded from the accompanying financial statements. See Note 11, Joint Ventures, which more fully describes these organizations.

## **B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

### **Government-Wide Financial Statements**

The city presents two basic government-wide financial statements: the Statement of Net Position

and the Statement of Activities. These government-wide financial statements report information on all activities of the primary government unit and its component units, if any. The financial information for the primary government is distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

### **Statement of Net Position**

The Statement of Net Position presents the city's assets and liabilities. As a general rule, balances between governmental and business-type activities are eliminated.

Assets and liabilities are presented in a net assets format in order of liquidity. Net position (assets and deferred outflows of resources less liabilities and deferred inflows of resources) are classified into three categories:

- Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- Restricted net position results when constraints are placed on net asset use either by external parties or by law through enabling legislation.
- Unrestricted net position consists of amounts that do not meet the definition of the two preceding categories.

### **Statement of Activities**

The Statement of Activities report the extent to which each major city program is supported by general city revenues or is self-financed through fees and intergovernmental aid. For governmental activities, a major program is defined as a function. For business-type activities, a major program is an identifiable activity.

Program revenues offset the direct expenses of major programs. Direct expenses are those that are clearly identifiable within a specific function or activity. Program revenues are identified using the following criteria:

- Charges to customers for goods and services of the program. A customer is one who directly



benefits from the goods or services or is otherwise directly affected by the program, such as a city resident or taxpayer or other governments or nongovernmental entities.

- Amounts received from outside entities that are restricted to one or more specific programs. These amounts can be operating or capital in nature.
- Earnings on investments that are restricted to a specific program are also considered program revenues.

General revenues consist of taxes and other items not meeting the definition of program revenues.

Generally the effect of internal activities is eliminated. Exceptions to this rule include charges between the workers' compensation and risk management insurance programs and the various other city programs and functions. Elimination of these charges would distort the direct costs and revenues reported for the various activities involved.

#### **Fund Financial Statements**

The City uses 302 accounts that are combined into 186 rollup funds. The city presents separate financial statements for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major individual proprietary funds are reported in separate columns in the fund financial statements, with nonmajor funds being combined into a single column regardless of fund type. Internal service and fiduciary funds are reported by fund type. Major funds include:

#### **Major Governmental Funds**

- **General Fund** is the city's primary operating fund. This fund accounts for all financial resources and transactions not accounted for in other funds.

#### **Major Enterprise Funds**

- **Water/Sewer Fund** accounts for the operation and construction of the water and wastewater distribution systems, the hydroelectric facilities, and the wastewater treatment facility, and accounts for all revenues and expenses incurred in its operation.

- **Solid Waste Fund** is used to account for the collection and disposal of the city's refuse, including curbside and yard waste recycling. The operation of the waste-to-energy facility is also accounted for in this fund.

The city includes the following governmental and proprietary fund types within nonmajor funds.

#### **Nonmajor Governmental Funds**

- **Special Revenue Funds** account for the proceeds of specific revenue sources (other than trusts for private organizations, or other governments, or for major capital projects) that are restricted or committed to expenditures for specific purposes. These include a variety of city programs including the city's street program, parks department, and community development programs.
- **Debt Service Funds** account for the accumulation of resources that are restricted or committed to expenditures for, and the payment of, principal and interest on the city's bonds issued in support of governmental activities.
- **Capital Projects Funds** account for financial resources that are restricted or committed to expenditures for the acquisition, construction, or improvement of major city-owned facilities (other than those financed by proprietary funds).

#### **Nonmajor Proprietary Funds**

- **Enterprise Funds** account for the city's business type operations for which a fee is charged to external users for goods or services such as golf and building permits.
- **Internal Service Funds** account for the city's risk management, data processing, accounting, utility billing, fleet services, and other services provided by one department to other departments of the city on a cost-reimbursement basis.

#### **Fiduciary Funds**

The city reports the following fiduciary funds:

- **Pension (and other Employee Benefit) Trust Funds** are used to report resources that are required to be held in trust by the city for the

members and beneficiaries of its defined benefit and other employee benefits plans.

- **Private-Purpose Trust Fund** is used to report trust arrangements, other than pension trusts, under which trust principal and income benefit individuals, private organizations, or other governments.
- **Agency Funds** account for resources held by the city in a custodial capacity for other governments, private organizations, or individuals.

### C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

For government-wide reporting purposes, the city uses the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as the eligibility requirements imposed by the provider have been met.

For fund statement reporting purposes, the city uses the current financial resources measurement focus and modified accrual basis of accounting for governmental funds. With the current financial resources measurement focus, generally only current assets and liabilities are included on the governmental funds balance sheet. Operating statements for these funds present inflows (i.e., revenues and other financing sources) and outflows (i.e., expenditures and other financing uses) of expendable financial resources.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be reasonably estimated. "Available" means collectible within the current period or soon enough thereafter to be used to pay for liabilities of the current period. Primary revenues that are determined to be susceptible to accrual include sales taxes, business and occupation taxes, federal grants in aid, and charges for services.

Revenues from property taxes are determined to be available if collectible within 60 days. Taxes imposed on exchange transactions are accrued when the underlying exchange transaction occurs if collectible within one year. Revenues from licenses, permits, and fees are recognized when received in cash. Revenues related to expenditure-driven grant agreements are recognized when the qualifying expenditures are made, provided that the eligibility criteria is met. Expenditure-driven grant revenue is considered available if it can be collected by the city at the same time cash is disbursed to cover the associated grant expenditure. Pledges are accrued when the eligibility requirements are met and resources are available. All other accrued revenue sources are determined to be available if collected within 12 months.

Property taxes are levied in December for the following calendar year. The first half-year collections are due by April 30, and the second half-year collections are due by October 31. The lien date on property taxes is January 1 of the tax levy year.

Under modified accrual accounting, expenditures are generally recognized when the related liability is incurred. However, unmatured interest on general long-term obligations are recognized when due, and certain compensated absences, other postemployment benefits, and claims and judgments are recognized when the obligations are expected to be liquidated with available expendable financial resources.

The city reports deferred inflows of resources on the balance sheet of its governmental funds under certain conditions. Deferred inflows of resources arise when a potential revenue does not meet both the "measurable" and "available" criteria for revenue recognition in the current period. Deferred inflows of resources also arise when resources are received by the city before it has a legal claim to them, such as when grant monies are received prior to incurring qualifying expenditures/expenses.

All proprietary and trust funds are accounted for using the economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on their respective statement of net position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

Net position for trust funds are held in trust for external individuals and organizations.

All proprietary and trust funds are reported using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

#### Excess of Expenditures Over Appropriations

The following governmental funds reported excess expenditures and other uses over appropriations:

Fund	Amount
Hotel/Motel Lodging	439,827
Emergency Medical Services	32,756
Community Development	11,478
CDBG Revolving	369,786
Rental Rehabilitation	19,744
Housing Stabilization	18,360
<b>Total</b>	<b>\$ 891,951</b>

#### Funds with Deficit Fund Balance/Net Position

The following funds reported deficit fund balance/net position as of December 31, 2013:

Fund	Amount
Accounting Services	461,185
<b>Total</b>	<b>\$ 461,185</b>

The Accounting Services Fund deficit is the result of under-charging other City funds for actual expenses of the internal service fund. Budgeted

allocations to other funds were underestimated. The City plans to fully recover the deficit from the internal customer funds by the end of 2014.

#### D. BUDGETARY INFORMATION

Annual appropriated budgets are adopted for all funds within the City, including the General, Special Revenue, Debt Service, and Capital Projects funds. For governmental funds, there are no differences between the budgetary basis and generally accepted accounting principles. Budgetary accounts are integrated in fund ledgers for all budgeted funds, but the financial statements include budgetary comparisons for annually budgeted governmental funds only.

The budget basis is substantially the same as the basis of accounting in all governmental funds.

The City follows these policies and procedures in establishing the budgetary data reported in the financial statements:

1. Prior to November 1, the Mayor submits to the City Council a preliminary budget and budget message and files it with the City Clerk.
2. Public hearings are conducted to obtain taxpayers comments.
3. Prior to January 1, the budget is legally adopted through passage of an ordinance. The City is required by state law to adopt a balanced budget.
4. The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of a fund, authorized employee positions, salary ranges, hours or other conditions of employment must be approved by the City Council.
5. A comparison of budget to actual is used as a management control device during the year for all funds.
6. The expenditures of a given fund may not legally exceed its appropriations.
7. The financial statements contain the original and final budget information. The

original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

8. The level of control for adopted budgets is at the fund level.
9. Any unexpended appropriation balances automatically lapse at year-end.

#### **Encumbrances**

An encumbrance system is maintained to account for commitments resulting from approved purchase orders, work orders and contracts. Encumbrances at year-end represent the estimated amount of expenditures ultimately to result if unperformed contracts and open purchase orders in process are completed. Encumbrances outstanding at year-end for unfulfilled obligations of the current year budget are reappropriated in the succeeding year.

### **E. ASSETS, LIABILITIES, AND NET POSITION**

#### **1. Cash and Equivalents**

It is the City's policy to invest all temporary cash surpluses. At December 31, 2013, the Treasurer was holding \$271.2 million in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is credited to the General Fund. Cash and equivalents includes cash on hand, cash in banks, and petty cash funds.

#### **2. Pooled Investments**

The City Treasurer invests all temporary cash surpluses. For reporting purposes, investments are stated at fair value or amortized cost, which approximates fair value.

#### **3. Receivables**

Accounts receivable are stated net of allowances for uncollectible accounts. Estimated unbilled accounts receivable for the Water, Sewer and Solid Waste funds have been recognized as revenue. Accrued interest receivable consists of amounts

earned on investments, notes and contracts at year end.

#### **4. Amounts Due to and from Other Funds and Governments and Interfund Loans**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either *Interfund Loans Receivable*, *Advances to Other Funds*, *Interfund Loan Payable* or *Due To/From Other Funds*. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Loans between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

#### **5. Inventories**

Inventories are valued at average cost. The inventories of governmental funds, parks fund, proprietary funds, water warehouse, water meter shop, waste-water treatment plant and utilities garage are maintained on a perpetual inventory system. Other reported inventories are determined by physical count.

Reported inventories in governmental funds consist of expendable supplies held for consumption. The cost thereof has been recorded as an expenditure at the time individual inventory items were purchased (purchase method). Reported inventories in these funds are fully offset by a fund balance reserve, which indicates they are unavailable for appropriation. A comparison to market value is not considered necessary.

#### **6. Restricted Assets**

The proceeds of enterprise fund revenue bonds, as well as other resources, are restricted by applicable bond ordinances for construction costs and debt service payments. The current portion of related liabilities is shown as Payables from Restricted Assets. Owners and operators of Solid Waste Landfill units are required under the Washington Administrative Code to establish financial assurance for closure and post-closure monitoring of those units. Specific reserve requirements are described in Note 13, Enterprise Fund Disclosures.

The restricted assets of the enterprise funds are composed of the following:

Nature of Restricted Assets	Amount
Equity in Pooled Investments - Landfill Liability	\$ 10,505,120
<b>Total</b>	<b>\$ 10,505,120</b>

#### 7. Other Noncurrent Assets

Other Long-Term Assets includes long-term Contracts Receivable in the Sewer fund and Other Long-Term Assets in the Solid Waste fund. See Note 12, Enterprise Fund Disclosures for a description of noncurrent assets.

#### 8. Unearned Revenue

Unearned revenue includes deferred inflows of resources such as property taxes and special assessment receivables, as well as revenues collected in advance for golf.

#### 9. Capital Assets (see Note 4)

Except as noted below, it is the city's policy to capitalize:

- All land;
- All additions and improvements to the city's road system;
- Intangible assets;
- Buildings, building improvements, and leasehold improvements with a cost of \$5,000 or more; and
- All other capital assets with a unit cost of \$5,000 or greater

Capital assets such as property, plant, equipment, and infrastructure (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type columns in the government-wide financial statements. The City defines capital assets as assets with an initial,

individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives.

Category	Useful Life (in Years)
Buildings & Improvements	50-60
Infrastructure	40-60
Light /Heavy Duty Vehicles	5-10
Other Equipment	2-20
Heavy Equipment	10
Water Mains	60
Water Hydrants	50-60
Sewer Interceptors	100

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

#### 10. Compensated Absences

Employees accrue ten days of vacation leave per year for up to five years of service. From five to twenty years, three to four weeks are accrued depending on length of service; five weeks are accrued at the beginning of the twentieth year, and six weeks are accrued at the beginning of the thirtieth year. An employee may accumulate paid vacation leave not to exceed two hundred hours or two times the employee's annual leave accrual, whichever is greater. The City has a policy of payment of the full amount of unused vacation leave up to the maximum accrual allowed upon termination or retirement.

The sick leave policy of the City varies according to the contract provisions of the various bargaining units. The most generous provision provides



vesting, after five years of service, of 25% of the recorded sick leave at the date of resignation, and 40% upon retirement. There is no cash payment until resignation or retirement and the maximum payout cannot be in excess of 960 hours for any employee.

All vacation and sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. An additional amount has been accrued for the government's share of Social Security and Medicare Taxes relating to the vacation and sick leave accrual.

#### 11. Long-Term Liabilities (See Note 9)

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line or bonds-outstanding method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

#### 12. Deferred Inflows of Resources

This account includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria have not been met.

#### 13. Governmental Fund Balance

The city's governmental fund balance balances are classified according to the relative constraints that control how amounts can be spent. Classifications include:

- **Nonspendable.** Balances that either are not in a spendable form or are legally or contractually required to remain intact.
- **Restricted.** Balances that are restricted for specific purposes by the constitution, enabling legislation or external resource providers such as creditors, grantors, or laws or regulations of other governments.
- **Committed.** Balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. For the city, this formal action takes the form of statutes which are passed by the City Council and approved by the Mayor.
- **Assigned.** Balances that are constrained by management to be used for specific purposes, but are neither restricted nor committed.
- **Unassigned.** Residual balances that are not constrained in the other classifications.

For purposes of fund balance classification, when both restricted and unrestricted resources are available for use, it is the city's policy to use restricted resources first, then unrestricted resources as they are needed. When unrestricted resources are used, committed resources are used first followed by assigned and unassigned resources respectively.

The detail of the governmental funds committed and assigned fund balances at December 31, 2013 are shown below:

<b>Fund Balance</b>	<b>General Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total</b>
<i>Nonspendable:</i>			
Interfund loans receivable	\$ 994,020	\$ 4,288,245	\$ 5,282,265
<b>Total Nonspendable Fund Balance</b>	<b>994,020</b>	<b>4,288,245</b>	<b>5,282,265</b>
<i>Restricted for:</i>			
Capital projects	-	26,208,119	26,208,119
Debt service	-	5,855,848	5,855,848
Grants	636,836	40,828,651	41,465,487
Police/firefighters' pension	-	403,498	403,498
Other	-	57,419	57,419
<b>Total Restricted Fund Balance</b>	<b>636,836</b>	<b>73,353,535</b>	<b>73,990,371</b>
<i>Committed for:</i>			
Contingency reserve	13,841,319	-	13,841,319
Revenue stabilization	674,454	-	674,454
Inventories	-	1,194,392	1,194,392
City facilities	-	159,476	159,476
Communication	-	4,403,633	4,403,633
Transportation	487,312	709,049	1,196,361
Public safety	-	6,371,114	6,371,114
Culture and recreation	-	3,363,563	3,363,563
Community development	11,225	-	11,225
Benefits	-	4,434	4,434
<b>Total Committed Fund Balance</b>	<b>15,014,310</b>	<b>16,205,661</b>	<b>31,219,971</b>
<i>Assigned for:</i>			
Parks construction/financing	-	25,000	25,000
Park revenue stabilization	-	300,000	300,000
Parks	-	263,607	263,607
Library capital replacement	267,821	-	267,821
Street maintenance	-	3,621,869	3,621,869
Human Services	-	1,370,677	1,370,677
Law enforcement	-	345,728	345,728
Encumbrances	2,236,471	7,501,945	9,738,416
Code enforcement	86,106	-	86,106
City facilities/improvement	85,845	-	85,845
Other purposes	5,407	-	5,407
<b>Total Assigned Fund Balance</b>	<b>2,681,650</b>	<b>13,428,826</b>	<b>16,110,476</b>
<b>Total</b>	<b>\$ 19,326,816</b>	<b>\$ 107,276,267</b>	<b>\$ 126,603,083</b>

Fund balance has been restated as follows:

	Fund Balance (Deficit) at 12/31/12	Fund Reclassification	Fund Balance as restated 01/01/13
<b>Governmental Funds</b>			
Real Estate Rental Fund	\$ 128,813	\$ (8,860)	\$ 119,953
Community Development Block Revolving Fund	-	18,231,402	18,231,402
Home Rehabilitation Fund	18,234,608	(18,231,402)	3,206
Special Assessment Construction Fund <sup>1</sup>	(4,896,665)	4,896,776	111
<b>Internal Service Funds</b>			
Property Acquisition Fund <sup>2</sup>	5,355,392	(1,472,274)	3,883,118
<b>Total</b>	<b>\$ 18,822,148</b>	<b>\$ 3,415,642</b>	<b>\$ 22,237,790</b>

<sup>1</sup>The Special Assessment Construction Fund was a major fund in 2012, but is reported as a Nonmajor Internal Service Fund in 2013. This change was necessary to better align the special assessment debt with the related assets, which had caused a negative fund balance in prior years.

<sup>2</sup>The net increase of \$3.4 million is the recognition of a capital asset from the Special Assessment Construction Fund that was not reflected in the FY12 fund balance because it is a governmental fund.

#### 14. Budgetary Reserves/Control

**Contingency Reserve.** This account was established in 2001 in the Spokane Municipal Code. At each budget cycle commencing with year 2001 and every year thereafter, an amount from the unappropriated general fund fund balance at each year end shall be appropriated to the contingency reserve account. Additional funds may be added to the contingency reserve account in such amounts and at such additional times during the ensuing budget year in accordance with standard emergency budget ordinance procedures.

Disbursements from this account are for the purpose of meeting extraordinary expenditures and are governed by the following criteria:

1. Unforeseen circumstances arising after the adoption of the annual budget which require an unavoidable and non-continuing allocation; or
2. Unforeseen emergency threatening health and/or safety of the citizens; or

3. Unanticipated non-continuing expenses are needed to fulfill an unfunded legislative mandate; or
4. Significant operating efficiencies can be achieved resulting in clearly identified near-term and offsetting cost savings. Appropriations from this account are only approved by the standard emergency budget ordinance procedure.

**Revenue Stabilization.** At each and every year, commencing with the 2008 budget, amounts from the unappropriated general fund fund balance shall be appropriated to the revenue stabilization account until such time the account is funded to the targeted funding level. (The initial targeted funding level within the revenue stabilization account was three and one-half percent of budgeted general fund revenues.)

Disbursements from the revenue stabilization account may be made to mitigate a general fund revenue shortfall deemed by the City Council to meet the following criteria:



1. Revenue shortfall results from revenue collections considered to be materially short of the amount budgeted, or the revenue shortfall results from projected baseline (existing) budgeted revenues for any ensuing year increasing by less than the assumed long-term revenue growth rate in the City's six-year general fund projection for the immediate year; and
2. The revenue shortfall is expected to persist through the end of the fiscal year; and
3. The revenue shortfall is reasonably expected to persist for a period no longer than three years. A revenue shortfall expected to persist beyond three years shall be directly addressed in the current annual budget process through long-term budget measures.

Disbursements from the revenue stabilization account may include amounts budgeted in the general fund to supplement revenue shortfalls that occur in other city funds. Appropriations from this account are only approved by the standard emergency budget ordinance procedure.

**Park Fund Reserve.** The Parks Fund is overseen by an independent board of commissioners. This board approved a reserve of three percent of the annual budget to be maintained for emergencies, risk management and economic uncertainty. All appropriations from this reserve account require prior Parks Board approval unless previously specifically authorized for expenditure in the annual budget.

#### 15. Encumbrances

The City establishes encumbrances to record the amount of purchase orders, contracts, and other obligations which have not yet been fulfilled, cancelled, or discharged. Of the \$18.9 million in outstanding encumbrances at December 31, \$9.7 million were carried forward to the subsequent budget year as follows, and have been classified as assigned fund balance as follows:

Encumbrances	Amount
General Fund	\$ 2,236,471
Other Governmental Funds	7,501,945
<b>Total</b>	<b>\$ 9,738,416</b>

#### F. Other Significant Accounting Policies

##### Budgeting, Accounting and Reporting System (BARS)

The State of Washington Office of State Auditor was granted authority pursuant to the Revised Code of Washington (RCW 43.09.200 and 43.09.230) to prescribe the Budgeting, Accounting and Reporting System (BARS). The purpose of the BARS manual is to provide for uniformity in budgeting, accounting and reporting by all local government entities within the State of Washington. The City has established its own chart of accounts for accounting purposes and converts to BARS accounts for State reporting.

## Note 2

### Deposits and Investments

#### A. Deposits and Investments for the City of Spokane

The City has the authority to invest in both pooled investments (Treasurer's Cash Investments) and fund investments. The Chief Financial Officer has the authority to determine the availability of funds for both pooled and fund investments and takes into consideration such needs as requests of individual fund managers, current cash needs, lead time, minimum investment amount and maturities necessary to avoid sacrifice of interest earnings. Interest earnings on Treasurer's Cash Investments are credited to the General Fund.

##### Deposits

At year end the carrying amount of the City's deposits was \$271.2 million. These deposits consisted of money market accounts at banks, bank savings, amounts deposited with Washington State's Local Government Investment Pool (LGIP) and checking accounts. All of these deposits are entirely insured by pledged collateral on deposit with the Washington State Public Deposit Protection Commission. Effective October 3, 2008, the basic limit on federal deposit insurance coverage was increased to \$250,000 per depositor.

##### Credit Risk

The credit risk of the LGIP is limited as most investments are either obligations of the US government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit. Investments or deposits held by the LGIP are all classified as category one risk level investments. They are either insured or held by a third-party custody provider in the LGIP's name.

##### Custodial Credit Risk

Per GASB 40 guidelines the LGIP balances are also not subject to custodial credit risk. The Washington Public Deposit Protection Commission provides security for public

treasurers by protecting public deposits which exceed the amount insured by the FDIC. Total deposits by a single treasurer may not exceed the depository's Washington proportional net worth. A public depository may accept public deposits in total not to exceed one and one-half times its Washington proportional net worth or thirty percent of total public funds on deposit statewide. If a depository's public fund deposits exceed either of these limitations, it must collateralize excess deposits at one hundred percent. In addition, a depository must meet certain financial standards set by the Commission. Any public depository which does not comply with these financial standards is required to collateralize all of its public deposits at one hundred percent.

##### Interest Rate Risk

The Local Government Investment Pool is an un-rated 2a-7 like pool, as defined by GASB 31. Accordingly, participants' balances in the LGIP are not subject to interest rate risk, as the weighted average maturity of the portfolio will not exceed 90 days.

##### Investments

As of December 31, 2013, the City of Spokane had the following investments:

Fund	Amount
U.S. government agencies	\$ 248,962,281
Local improvement district progress payments	1,475,479
Property acquisition fund bonds	11,014,065
Consolidated local improvement district bonds	2,520,709
<b>Total</b>	<b>\$ 263,972,534</b>

The weighted average maturity of the U.S. agency investments is 5.07 years. Progress warrants are issued in payment for construction projects for the City's local improvement districts. The warrants are interest bearing and are redeemed once long term bonds are issued following completion of the projects. All warrants are claims and liens against the property acquisition fund.

## **B. Deposits and Investments for the Spokane Employees' Retirement System (SERS)**

### **Deposits**

The Federal Deposit Insurance Corporation (FDIC) insures the cash deposits up to \$250,000 per member of the System. As provided by State of Washington RCW 43.84, the Washington Public Deposit Protection Commission (PDPC) collateralizes deposits in excess of \$100,000.

<b>Deposit Type</b>	<b>Value</b>
Cash held by Treasurer	\$ 192,910
Short term investments	1,523,566
Balance, December 31, 2013	<b>\$ 1,716,476</b>

### **Investments**

The Spokane Employees' Retirement System's (the System) investment management policy is set by the Board of Administration. The investment policy sets strategic asset allocation targets and ranges for all approved asset classes. SERS' investments are governed by an investment authority known as the "prudent person rule." The prudent person rule, as set forth by state statute, establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the System. SERS investments are categorized to give an indication of the level of risk assumed by the System at year end.

Investments of the pension trust funds are reported at fair market value. The Board of Administration maintains a formal Statement of Investment Policy, which addresses governing provisions and additional guidelines for the investment process. In fulfilling its responsibilities, the Board of Administration has contracted with investment managers, a custodian, and an independent investment consultant. Investment manager contracts include specific guidelines regarding the investments under management.

The independent investment consultant monitors the fund on a regular basis and provides quarterly reports to staff and the Board. The SERS' chief investment officer (CIO), who also serves as the Retirement Director, also monitors the fund on a regular basis.

In 2007, the Board approved a new asset allocation, which includes an allocation to alternative investments. Funding of these limited partnerships began in late 2007 and continued into 2013. The term "alternative investments" encompasses a broad category of nontraditional investments. Each alternative investment that SERS enters into has been carefully studied by the System's independent investment consultant and has been reviewed by staff and the Board. The asset allocation study that was modeled by the independent consultant demonstrated that alternative assets have negative correlations to traditional asset classes and are expected to add value to the portfolio, over time. The Director and Board believe that the use of alternative investments is a prudent approach to managing risk.

### **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the System. Although the SERS' Investment Policy does not specifically address credit risk, this risk is mitigated by closely monitoring the credit quality ratings of its fixed income portfolios and by setting criteria for fixed income manager selection. SERS' fixed income assets are comprised of four mutual funds, which are non-rated. The fair market value of the mutual funds is \$45.4 million as of December 31, 2013.

### **Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a financial institution or bank failure, the System would not be able to recover the value of its deposits and investments that are in the possession of an outside party. Under Governmental Accounting Standard No. 40, Deposit and Investment Risk Disclosures guidelines, the System does not have exposure to custodial credit risk.

### Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of an investment in a single issuer. The System does not have any investments from a single issuer (excluding investments in government fixed income securities) that represent more than 5% of the System's net assets.

### Interest Rate Risk

Market or interest rate risk is the greatest risk faced by an investor in the debt securities market. The price of a debt security typically moves in the opposite direction of the change in interest rates. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an

investment. Although the SERS' Investment Policy does not specifically address interest rate risk, the System's fixed income portfolio is professionally managed with an expected range of interest rate risk within the portfolio. In addition, the portfolio is closely monitored by the independent consultant and the CIO. The following table shows the System's fixed income assets by investment type, market value and average effective maturity as of December 31, 2013. The portfolio contains additional investments of \$203 million for a total portfolio of \$241.8 million.

Investment Type	Total Market Value	Average Effective Maturity			
		Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years
Mutual funds					
PIMCO Low Duration	\$ 5,455,170	\$ -	\$ 5,455,170	\$ -	\$ -
Vanguard Short Term	6,190,509	-	6,190,509	-	-
American Beacon Flexible	9,817,479		9,817,479		
PIMCO Global	13,242,228	-	-	13,242,228	-
Metropolitan West	10,725,058	-	-	10,725,058	-
<b>Total</b>	<b>\$ 45,430,444</b>	<b>\$ -</b>	<b>\$ 21,463,158</b>	<b>\$ 23,967,286</b>	<b>\$ -</b>
Percentage	100.0%	0.0%	47.2%	52.8%	0.0%

### Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. At December 31, 2013, 22.4% of the System's portfolio is invested in international mutual funds and a limited partnership fund of funds, which primarily consist of foreign equities. The fair market value of the foreign securities is \$66.3 million as of

December 31, 2013. Additionally, SERS has \$13.2 million invested in an international/global fixed income fund, of which 55.7% is foreign fixed income holdings at December 31, 2013. The SERS' Investment Policy does not specifically address foreign currency risk; however, the System considers foreign currency risk during the selection and monitoring process of the fund managers.

## C. Deposits and Investments for the Spokane Firefighters' Trust Fund

### Schedule of Credit Risk

Investment Type	Total Market Value	Investment Type			
		AAA	AA	A	BBB
U.S. government treasuries	\$ 3,486,765	\$ 3,486,765	\$ -	\$ -	\$ -
U.S. government agencies	-	-	-	-	-
Mortgage backed governmental passthrough	2,560,224	-	2,560,224	-	-
Governmental CMOs	3,533,141	659,891	2,873,250	-	-
Corporate notes and bonds	12,559,246	-	2,259,344	7,572,570	2,727,332
Asset backed securities	1,196,855	-	711,151	485,704	-
<b>Total</b>	<b>\$ 23,336,231</b>	<b>\$ 4,146,656</b>	<b>\$ 8,403,969</b>	<b>\$ 8,058,274</b>	<b>\$ 2,727,332</b>
Percentage	100.0%	17.8%	36.0%	34.5%	11.7%

### Schedule of Interest Rate Risk

Investment Type	Total Market Value	Maturity			
		Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years
U.S. government treasuries	\$ 3,486,765	\$ 1,400,168	\$ 1,755,290	\$ 331,307	\$ -
U.S. government agencies	-	-	-	-	-
Mortgage backed governmental passthrough	2,560,224	-	162,701	1,552,207	845,316
Governmental CMOs	3,533,141	-	1,260,223	2,030,772	242,146
Corporate notes and bonds	12,559,246	155,928	11,974,626	428,692	-
Asset backed securities	1,196,855	-	-	1,196,855	-
<b>Total</b>	<b>\$ 23,336,231</b>	<b>\$ 1,556,096</b>	<b>\$ 15,152,840</b>	<b>\$ 5,539,833</b>	<b>\$ 1,087,462</b>
Percentage	100.0%	6.7%	64.9%	23.7%	4.7%

## Note 3

### Property Taxes

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. The county assessor is responsible for determining what the individual property taxes are, based upon the monies requested by the taxing districts and the assessed valuation within these districts.

The property tax timeline is as follows:

January 1	Taxes are levied and become an enforceable lien against properties
February 14	Tax bills are mailed
April 30	First of two equal installment payments due
May 31	Assessed value of property established for next year's levy at 100% of market value
October 31	Second of two equal installment payments due

Property taxes are recorded as a receivable and revenue when levied. Property taxes collected in advance of the fiscal year to which they apply are recorded as deferred revenue and recognized as revenue of the period to which they apply. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The City is permitted by law to levy up to \$3.60 per \$1,000 of assessed valuation for general governmental services. The City's regular levy for 2013 was \$3.03 per \$1,000 on an assessed valuation of \$14,954 million, for a total regular levy of \$45.3 million. Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

Special levies approved by the voters are not subject to the limitations listed above. For 2013, the total levy for Emergency Medical Services was \$7.5 million.

## Note 4

### Capital Assets

Capital asset activity for the year ended December 31, 2013 was as follows:

Capital Assets	Jan 01, 2013 Beginning Balance	Increases	Decreases	Dec 31, 2013 Ending Balance
<b>GOVERNMENTAL ACTIVITIES</b>				
<b>Capital assets not being depreciated</b>				
Land	\$ 832,257,338	\$ 4,686,507	\$ (537,702)	<b>\$ 836,406,143</b>
Construction in progress	68,869,680	1,772,974	(38,818,283)	<b>31,824,371</b>
<b>Total capital assets, not being depreciated</b>	<b>901,127,018</b>			<b>868,230,514</b>
<b>Capital assets, being depreciated:</b>				
Buildings	86,647,994	2,090,885	(1,473,076)	<b>87,265,803</b>
Accumulated depreciation	(34,430,945)	(2,122,965)	24,314	<b>(36,529,596)</b>
Net buildings	52,217,049			<b>50,736,207</b>
Other improvements	69,083,859	14,128,292	(1,524,489)	<b>81,687,662</b>
Accumulated depreciation	(20,826,806)	(5,099,285)	(501,643)	<b>(26,427,734)</b>
Net other improvements	48,257,053			<b>55,259,928</b>
Machinery and equipment <sup>1</sup>	93,215,326	8,641,895	(5,315,362)	<b>96,541,859</b>
Accumulated depreciation	(59,521,113)	(6,008,323)	3,760,404	<b>(61,769,032)</b>
Net machinery and equipment	33,694,213			<b>34,772,827</b>
Infrastructure	959,260,817	44,528,145	(3,214,578)	<b>1,000,574,384</b>
Accumulated depreciation	(440,567,102)	(21,987,469)	2,153,974	<b>(460,400,597)</b>
Net infrastructure	518,693,715			<b>540,173,787</b>
Total Capital assets, being depreciated (net)	652,862,030			<b>680,942,749</b>
<b>Governmental Activities, Capital Assets (net)</b>	<b>\$ 1,553,989,048</b>			<b>\$ 1,549,173,263</b>
<sup>1</sup> Capital asset from governmental funds transferred to internal service fund; beginning balance reduced accordingly since it's recorded as an increase in the proprietary funds.				

Capital Assets	Jan 01, 2013 Beginning Balance	Increases	Decreases	Dec 31, 2013 Ending Balance
<b>BUSINESS-TYPE ACTIVITIES</b>				
<b>Capital assets not being depreciated</b>				
Land	\$ 15,030,979	\$ 44,048	\$ (423,811)	<b>\$ 14,651,216</b>
Construction in progress	55,261,083	28,777,140	(24,086,181)	<b>59,952,042</b>
<b>Total capital assets, not being depreciated</b>	<b>70,292,062</b>			<b>74,603,258</b>
<b>Capital assets, being depreciated:</b>				
Buildings	288,547,218	2,984,473	(179,541)	<b>291,352,150</b>
Accumulated depreciation	(165,226,225)	(8,998,637)	179,547	<b>(174,045,315)</b>
Net buildings	123,320,993			<b>117,306,835</b>
Other improvements	64,641,368	9,225,988	-	<b>73,867,356</b>
Accumulated depreciation	(28,127,262)	(3,621,059)	-	<b>(31,748,321)</b>
Net other improvements	36,514,106			<b>42,119,035</b>
Machinery and equipment	144,348,031	14,418,657	(2,788,756)	<b>155,977,932</b>
Accumulated depreciation	(77,758,416)	(9,309,603)	2,728,444	<b>(84,339,575)</b>
Net machinery and equipment	66,589,615			<b>71,638,357</b>
Infrastructure	458,121,138	11,633,348	(16,221,297)	<b>453,533,189</b>
Accumulated depreciation	(139,641,163)	(8,225,111)	940,361	<b>(146,925,913)</b>
Net infrastructure	318,479,975			<b>306,607,276</b>
Intangible assets	113,766	-	-	<b>113,766</b>
Accumulated amortization	(70,537)	(2,273)		<b>(72,810)</b>
Net intangible assets	43,229			<b>40,956</b>
Total Capital assets, being depreciated (net)	544,947,918			<b>537,712,459</b>
<b>Business-Type Activities, Capital Assets (net)</b>	<b>\$ 615,239,980</b>			<b>\$ 612,315,717</b>
<b>DEPRECIATION</b>				
<b>Governmental Activities:</b>				
General government				\$ 1,107,963
Public safety				4,269,721
Utilities environment				277,355
Transportation				23,081,175
Economic environment				781,610
Mental and physical health				-
Culture and recreation				5,612,694
<b>Total Depreciation Expense - Governmental Activities</b>				<b>35,130,518</b>
<b>Business-Type Activities:</b>				
Water/Sewer				\$ 19,014,834
Solid Waste				10,211,535
Other				930,317
<b>Total Depreciation Expense - Business-Type Activities</b>				<b>30,156,686</b>



## Note 5

### PENSION PLANS

#### A. GENERAL

The City administers in three single-employer, defined benefit retirement plans:

- Spokane Employees' Retirement System (SERS)
- Spokane Firefighters' Pension
- Spokane Police Relief and Pension

The Law Enforcement Officers' and Fire Fighters' (LEOFF) system is a contributory multi-employer cost-sharing system operated by the State of Washington.

The annual pension costs for the LEOFF system are determined in accordance with GASB Statements 25 and 27.

#### Basis of Accounting

Pension plans administered by the city are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, employee and employer contributions are recognized in the period in which employee services are performed; investment gains and losses are recognized when incurred; and benefits and refunds are recognized when due and payable in accordance with the terms of the applicable plan.

State and local governmental employers, with some exceptions, are required to measure and disclose an amount for annual pension cost in accordance with the standards described by GASB Statement 27 (Accounting for Pensions by State and Local Governments) and GASB Statement 50 (Pension Disclosures). The methods and assumptions required for financial reporting are the same methods and assumptions used in determining a plan's funding requirement, and are described in the publicly available actuarial reports for the three pension plans administered by the City of Spokane. Those reports may be obtained by writing to the Retirement Department, City Hall, 808 West Spokane Falls Blvd, Suite 604, Spokane, Washington, 99201, or by calling (509) 625-6330.

The pension financial statements were prepared using the accrual basis of accounting. Employee and employer contributions, if required, are recorded as revenues in the period in which payroll is due and expenses are recorded when the corresponding liabilities are incurred. Interest income is recognized when earned.

#### Investments

All fixed income, common stock, and short-term investments are reflected in the statement of Plan net assets and are listed at fair market value. Short-term investments are reported at cost, which approximates fair value. Fixed income securities and common stock traded on national exchanges are valued at the last reported sales price. This market value methodology of pricing is performed by Interactive Data Corporation on a daily basis. Bloomberg and Merrill Lynch are also pricing sources. Investments that do not have an established market are reported at estimated fair value.

Certain investments, such as mutual funds and limited partnerships, net their management fees before the fund itself reports net investment income for the period. These investment expenses are netted against investment income in the Statement of Changes of Plan Net Assets to arrive at a net investment income amount.

No investments were made in loans to or leases with any Spokane Employees' Retirement System official, government employer official, or party related to a Spokane Employees' Retirement System official.

Each plan's investments may be used only for the payment of benefits to the members of that plan in accordance with the terms of the plan.

The investments of the Firefighters' Pension System are governed by an investment authority known as the "prudent person rule." The prudent person rule, as set forth by state statute, establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the Plan.

The actuarial reports for the city-administered pension plans may be obtained by writing to City of Spokane Retirement Department, 808 West Spokane Falls Blvd., Suite 604, Spokane, Washington 99201.

Plan descriptions, funding policies, a table of employer contributions required and paid for defined benefit plans, schedules of funded status and funding progress, defined benefit pension plan valuations, annual pension cost, and three year trend information will follow in Note 6B through Note 6H. Information related to changes in actuarial assumptions and methods, and changes in benefit provisions are provided in Note 6H. Details on plan net assets and changes in plan net assets of pension plans and other employee

benefit funds administered by the city are presented in Note 6E.

Membership of each city administered plan as of the date of the last actuarial valuation for all plans (December 31, 2103 for Employees' Retirement System and December 31, 2012 for the Firefighters' and Police Pension Systems) is as follows:

Plans Administered by the City	Retirees and Beneficiaries Receiving Benefits	Terminated Members Entitled To But Not Yet Receiving Benefits	Active Plan Members	Active Plan Members Non Vested	Total Members
Employees' Retirement System	1,180	98	1,422	-	2,700
Firefighters' Pension System	285	-	5	-	290
Police Pension System	230	-	2	-	232
<b>Total</b>	<b>1,695</b>	<b>98</b>	<b>1,429</b>	<b>-</b>	<b>3,222</b>

## B. PLAN DESCRIPTIONS

### Spokane Employees' Retirement System

The Spokane Employees' Retirement System (SERS) is a single employer defined benefit pension plan covering employees of the City of Spokane, administered in accordance with Chapters 3.05 and 4.14 of the Spokane Municipal Code (SMC).

SERS is a pension trust fund of the City of Spokane and is presented within the fiduciary funds of the City's comprehensive annual financial report. SERS has separate legal standing. The City is financially accountable for SERS because a financial burden is imposed on the City using the criteria of financial accountability. SERS has determined that there are no entities that require inclusion within its financial statements.

All permanent employees of the City, including employees of the Plan, are eligible to belong to SERS with the exception of police and firefighters who are members of the Washington State Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF).

SERS provides retirement, death, and disability benefits. All employees hired on or before December 31, 2008 who participate in SERS are eligible for service retirement after completing five years of service if they are age 50 or older. Their retirement benefits are calculated by multiplying 2.15% of the member's highest consecutive two-year average salary by the member's years of creditable service, not to exceed 64.5%. All employees hired on or after January 1, 2009 who participate in SERS are eligible for service retirement after completing five years of service and are age 50 or older; however, this group of employees must have their age plus years of service equal to 75 before they can draw a pension. Their retirement benefits are calculated by multiplying 2.0% of the member's highest consecutive two-year average salary by the member's years of creditable service, not to exceed 70.0%. Employees hired prior to January 1, 2009, have a choice at retirement of choosing a 2.15% multiplier with a service cap of 30 years or a 2.0% multiplier with a service cap of 35 years. In addition, the normal retirement age for the Plan is 62. For either group, benefits may be reduced according to the retirement annuity option selected.

### Firefighters' Pension Plan

The Firefighters' Pension System is a single-employer defined benefit pension plan established and administered by the city in accordance with the requirements of the Revised Code of Washington.

The plan provides retirement and medical benefits to all firefighters who were hired prior to March 1, 1970 (Pre-LEOFF officers). Firefighters hired on or after March 1, 1970 but before October 1, 1977, (LEOFF I officers) receive their pensions from the State of Washington and medical coverage from the City of Spokane. Firefighters hired after October 1, 1977 (LEOFF II officers) are not covered by these plans. According to RCW 41.26.090 "Any member having five or more service credit years and having attained the age of fifty years shall be eligible for a service retirement allowance and shall be retired upon the member's written request effective the first day following the date upon which the member is separated from service."

The plan provides death, disability, and medical benefits. The City is responsible for the medical expenses for active and retired employees covered under this plan.

There are 7 active firefighters and 291 firefighter retirees receiving benefits as of December 31, 2012, the date of the last actuarial valuation.

#### **Police Pension System**

The Police Relief and Pension System is a single-employer defined benefit pension plan established and administered by the city in accordance with the requirements of the Revised Code of Washington.

The plan provides retirement and medical benefits to all uniformed police who were hired prior to March 1, 1970 (Pre-LEOFF officers). Police hired on or after March 1, 1970 but before October 1, 1977, (LEOFF I officers) receive their pensions from the State of Washington and medical coverage from the City of Spokane. Police hired after October 1, 1977 (LEOFF II officers) are not covered by these plans. According to RCW 41.26.090 "Any member having five or more service credit years and having attained the age of fifty years shall be eligible for a service retirement allowance and shall be retired upon the member's written request effective the first day following the date upon which the member is separated from service."

The plan provides death, disability, and medical benefits. The City is responsible for the medical

expenses for active and retired employees covered under this plan.

There are 2 active police and 232 police retirees receiving benefits as of December 31, 2012, the date of the last actuarial valuation.

#### **Law Enforcement Officers' and Firefighters' Retirement System (LEOFF) Plans 1 and 2**

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature.

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2013, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings, in lieu of any retirement benefit, upon separation from LEOFF-covered employment.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50.

The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

Term of Service	Percent of FAS
20+	2.0%
10-19	1.5%
5-9	1.0%

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If there is an eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2) If there is no eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of the FAS, divided equally.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability benefit is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability benefit or service retirement benefit.

LEOFF Plan 2 members are vested after the completion of five years of eligible service.

Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service (the FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of a survivor option. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 benefit amount is 2 percent of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53.

A disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement benefit of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose

membership and continue receiving pension benefits without interruption.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of eligible health care insurance premiums.

Legislation passed in 2009 provides to the Washington state registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

LEOFF members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012.

LEOFF	Total Members
Retirees and Beneficiaries Receiving Benefits	10,189
Terminated Members Entitled To But Not Yet Receiving Benefits	689
Active Plan Members Vested	14,273
Active Plan Members NonVested	2,633
<b>Total</b>	<b>27,784</b>

### C. FUNDING POLICIES

The tables at the end of this section provide the required contribution rates for all plans (expressed

as a percentage of current year covered payroll) at the close of December 31, 2013.

At year end, the Employees' Retirement System had unfunded commitments of \$4.1 million to three limited partnership real estate funds and one limited liability company's royalties investment fund.

### Employees' Retirement System

Member and employer contribution rates are established by SMC Chapter 4.14. The funding of SERS is currently based on the entry age normal method. SERS funding objective is to achieve and maintain an actuarial liability funded status between 90% and 110%. Member contributions are 7.75% of eligible compensation and are deducted from the member's salary and paid into the retirement fund; the City contributes 7.75% of eligible compensation for a combined total of 15.50%. It is contemplated that the contribution by the City will, when added to the member's contribution, plus other revenues, be enough to properly fund the retirement benefits set forth. Contributions from employees and the employer were \$13.4 million in 2013 and \$13.9 million in 2012.

There are no long-term contracts for contributions outstanding and no legally required reserves.

### Firefighters' Pension System

For the Police Relief and Pension Fund, all benefits are funded on a pay-as-you-go basis. The City of Spokane is obligated by ordinance and RCW to make all required contributions to the plans. The major sources of funding for the Firefighters' Pension fund are property taxes, investment earnings, and the State fire insurance premium tax. Currently, there are no required employee contributions made to these pension plans.

The plan is partially funded with \$26.6 million in total net assets.

### Police Pension System

The City of Spokane is obligated by ordinance and RCW to make all required contributions to the plans. The major source of funding for the Police Pension fund is local retail sales and use tax. Currently, there are no required employee contributions made to these pension plans.

All benefits are funded on a pay-as-you-go basis.

### Law Enforcement Officers' and Firefighters' Retirement System (LEOFF) Plans 1 and 2



Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation

is not mandated by the state constitution and could be changed by statute. For DRS' fiscal year 2013, the state contributed \$54.2 million to LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

Actual Contribution Rates	Employer	Employee	State
Employees' Retirement System <sup>1</sup>	7.75%	7.75%	N/A
Firefighters' Pension System	0.16%	0.00%	N/A
Police Pension System	0.16%	0.00%	N/A
LEOFF 1 <sup>2</sup>	0.18%	0.00%	N/A
LEOFF 2 <sup>2</sup>	5.23%	8.41%	3.36%
<sup>1</sup> The annual required contribution was developed to equal actual employer contributions, if possible. If not, the maximum allowable amortization period is used. Because the contribution rates are fixed, the effective amortization period for the unfunded accrued liability will change over time as actual experience emerges that is different from the actuarial assumptions.			
<sup>2</sup> The employer rate includes the employer administrative expense fee currently set at 0.18%.			

#### D. EMPLOYER CONTRIBUTIONS PAID

The following table presents the city's contributions to cost-sharing plans in accordance with the funding policy.

There are no long term contracts for contributions for any of the retirement plans administered by the city.

<b>Actual Contributions</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Employees' Retirement System	6,715,376	6,937,750	6,799,258
Firefighters' Pension System	2,183,389	439,804	-
Police Pension System	845,079	869,885	849,157
LEOFF 1	1,304	1,853	2,343
LEOFF 2	2,740,733	2,717,510	2,801,443

## E. FUNDED STATUS AND FUNDING PROGRESS

The funded status of each plan as of the most recent actuarial valuation date (December 31, 2103 for the Employees' Retirement System and December 31, 2012 for the Firefighters' and Police Pension Systems) is as follows:

<b>Pension Funding Status (in thousands)</b>	<b>Employees' Retirement System<sup>1</sup></b>	<b>Firefighters' Pension System</b>	<b>Police Pension System</b>
Actuarial value of plan assets	\$ 261,605	\$ 12,571	\$ 664
Actuarial accrued liability (AAL)	381,039	25,755	10,599
Unfunded actuarial accrued liability (UAAL)	119,434	13,184	9,935
Funded ratio	68.7%	49%	6%
Covered payroll	87,337	N/A	N/A
UAAL as a percentage of covered payroll	136.75%	N/A	N/A

<sup>1</sup> The SERS Board can grant an ad-hoc performance adjustment under the following conditions: (1) if the actuarial accrued liability (AAL) funded ratio is more than 90%; (2) if the AAL associated with the ad-hoc increase does not cause the AAL funded ratio to drop below 90%; and (3) the combined employer and employee contribution rates are sufficient to fund the unfunded accrued liabilities as increased by the cost of the ad-hoc adjustment over a period not to exceed the maximum allowable GASB amortization period (currently 30 years). Further information can be found in City of Spokane Municipal Code 03.05.160.

### Defined Benefit Plans Administered by the City

#### Employees' Retirement System

As of December 31, 2013, the actuarial liability funded ratio is 68.7%, an increase from 66.2% as of December 31, 2012. The funded ratio is the ratio of the actuarial value of assets to the actuarial liability. The actuarial value of assets

recognizes market gains and losses over a period of five years. The 2013 increase in the funded status is primarily attributable to investment return on the smoothed fair value of the assets being greater than the assumed rate of return (refer to the Asset Valuation Method in the table below). For historical information on the funded ratio and other actuarial funding data, refer to the Schedule of Funding Progress in the Required

Supplemental Information that follows the notes to the financial statements.

#### Police Pension System

For the Police Pension System, the actuary presents a cash flow projection.

#### Firefighters' Pension System

As of December 31, 2012, the actuarial liability pension funded status ratio is 49%, which increased 1 percentage point from December 31, 2010. Refer to the Schedule of Funding Progress, which follows the notes to the financial statements, in the Required Supplemental Information historical

information on the funded ratio and other actuarial funding data.

For the Firefighters' Pension System, both a cash flow projection and an actuarial funding plan to liquidate any unfunded liabilities are presented by the actuary.

The information was determined as part of the actuarial valuations at the dates indicated below. Additional information as of the latest valuation follows:

	Employees' Retirement System	Firefighters' Pension System	Police Pension System
<b>Valuation date</b>	12/31/2013	12/31/2012	12/31/2012
<b>Actuarial cost method</b>	Entry age normal	Entry age normal	Entry age normal
<b>Amortization method</b>			
Funding	Level % of pay over not more than 30 years	30-year, closed as of January 1, 2007	30-year, closed as of January 1, 2007
<b>Remaining amortization years (closed)</b>			
<b>Asset valuation method</b>	Expected value method with 5-year smoothing and 90-110% market value corridor	Fair market value	Fair market value
<b>Actuarial assumptions</b>			
Investment rate of return	7.5%	4.0%	3.0%
Projected salary increases	0.0-10.0% <sup>1</sup>	2.5%	2.5%
Includes inflation at	3.0%	2.5%	2.5%
Cost of living adjustments	0.0%	Based upon 3.5% increase assumption when appropriate, for FPF benefits.	Based upon 3.5% increase assumption when appropriate, for PPF benefits.
		Based upon inflation assumption for some FPF benefits and all LEOFF benefits.	Based upon inflation assumption for some PPF benefits and all LEOFF benefits.
<sup>1</sup> 0% for members with more than 5 years of services in years 2013, 2014 and 2015. Otherwise, ranges from 3.0% for employees with 16 or more years of service to 10.0% for employees with less than two years of service			

## F. ANNUAL PENSION COST AND OTHER RELATED INFORMATION



Current year annual pension cost, net pension obligation (NPO), and related information for the current year for city's defined benefit plans are as follows:

<b>Annual Pension Cost and Net Pension Obligation</b>	<b>Employees' Retirement System</b>	<b>Firefighters' Pension System</b>	<b>Police Pension System</b>
Annual required contribution	\$ 8,237,317	\$ 864,697	\$ 586,637
Interest on NPO	-	53,173	63,693
Adjustment to annual required contribution <sup>1</sup>	449,847	(83,832)	(121,712)
Annual pension cost	8,687,164	834,038	528,618
Employer contributions	(6,715,376)	(2,183,389)	(845,079)
Increase (Decrease) in NPO	1,971,788	(1,349,351)	(316,461)
NPO - beginning of year	19,321,508	1,329,314	2,123,093
NPO - end of year	\$ 21,293,296	\$ (20,037)	\$ 1,806,632
<sup>1</sup> Estimated			

#### G. THREE YEAR HISTORICAL TREND

The following table presents three-year trend information for the city's single employer defined benefit plans:

<b>Single Employer Plans</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Employees' Retirement System</b>			
Annual pension cost	\$ 8,687,164	\$ 8,733,963	\$ 10,336,556
% of APC contributed	77.3%	79.4%	65.8%
NPO	\$ 21,293,296	\$ 19,321,508	\$ 17,525,295
<b>Firefighters' Pension System</b>			
Annual pension cost	\$ 834,038	\$ 1,058,312	\$ 1,076,751
% of APC contributed	261.8%	41.6%	0.0%
NPO	\$ (20,037)	\$ 1,329,314	\$ 710,806
<b>Police Pension System</b>			
Annual pension cost	\$ 528,618	\$ 684,544	\$ 684,429
% of APC contributed	159.9%	127.1%	124.1%
NPO	\$ 1,806,632	\$ 2,123,093	\$ 2,308,434

#### H. CHANGES IN BENEFIT PROVISIONS

There were no changes in benefit provisions for the fiscal year 2013 reporting period.

## Note 6

### Other Postemployment Benefits

From an accrual accounting perspective, the cost of post employment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. In adopting the requirements of GASB Statement 45 during the year ended December 31, 2007, the City recognizes the cost of post employment healthcare in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the City's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2007 liability.

#### Plan Description

The Firefighters' and Police Pension Systems are single-employer defined benefit pension funds established and administered by the City in accordance with the requirements of the Revised Code of Washington. The other post employment benefit plans are accounted for in these funds.

The Police and Fire other post employment benefit plans provide medical benefits to all firefighters and uniformed police who were hired prior to March 1, 1970. Police and firefighters hired on or after March 1, 1970, but before October 1, 1977, receive their pensions from the State of Washington and medical coverage from

the City of Spokane. Police and firefighters hired after October 1, 1977, are not covered by these plans.

Both plans provide death, disability and medical benefits. As of the most recent actuarial valuation date, there are 2 active police officers and 7 active firefighters covered under these plans as of December 31, 2012. In addition, there are 190 police and 240 firefighter retirees and beneficiaries receiving benefits from the two plans.

The city is responsible for the medical expenses for active and retired employees covered under these plans. For the Police OPEB Plan, all benefits are funded on a pay-as-you-go basis. The Firefighters' OPEB Plan is partially funded with \$25.3 million in total net assets.

#### Funding Policy

The city is obligated by ordinance and the Revised Code of Washington to make all required contributions to the plans. The major sources of funding for these plans are property taxes, investment earnings, the State fire insurance premium tax, local retail sales and use tax. There are no required employee contributions made to these plans.

Refer to the Schedule of Funding Progress, which follows the notes to the financial statements, in the Required Supplemental Information historical information on the funded ratio and other actuarial funding data.

Funded Status (in thousands)	Firefighters' OPEB	Police OPEB
Actuarial valuation date	12/31/2012	12/31/2012
Actuarial value of plan assets	\$ 12,576	\$ -
Actuarial accrued liability (AAL)	62,779	73,197
Unfunded actuarial accrued liability (UAAL)	50,203	73,197
Funded ratio	20%	0%
Covered payroll	N/A	N/A
UAAL as a percentage of covered payroll	N/A	N/A

## Annual Required Contribution

Firefighters' Pension System		2013	2012	2011
1	Annual normal cost, beginning of year	\$ 80,932	\$ 172,224	\$ 172,224
2	Amortization of UAAL, beginning of year	3,166,015	4,643,319	4,643,319
3	Interest through end of year = $((1+2)*i)$	129,878	240,777	240,777
4	Annual required contribution = $(1+2+3)$	3,376,825	5,056,320	5,056,320
5	Interest on net OPEB obligation	-	2,175	-
6	Adjustment to annual required contribution	-	(2,939)	-
7	Annual OPEB cost = $(4+5-6)$	3,376,825	5,055,556	5,056,320
8	Employer contributions	(3,376,825)	(5,099,046)	(5,012,830)
9	Change in net OPEB obligation = $(7+8)$	-	(43,490)	43,490
10	Net OPEB obligation at beginning of year	-	43,490	-
11	Net OPEB obligation at end of year = $(9+10)$	-	-	43,490
12	Percentage funded = $(8/7)$	100%	101%	99%

Police Pension System		2013	2012	2011
1	Annual normal cost, beginning of year	\$ 56,649	\$ 171,760	\$ 171,760
2	Amortization of UAAL, beginning of year	4,196,207	5,478,797	5,478,797
3	Interest through end of year = $((1+2)*i)$	127,586	226,022	226,022
4	Annual required contribution = $(1+2+3)$	4,380,442	5,876,579	5,876,579
5	Interest on net OPEB obligation	315,814	305,026	187,987
6	Adjustment to annual required contribution	(603,495)	(469,359)	(282,737)
7	Annual OPEB cost = $(4+5-6)$	4,092,761	5,712,246	5,781,829
8	Employer contributions	(2,496,290)	(2,810,780)	(2,855,843)
9	Change in net OPEB obligation = $(7+8)$	1,596,471	2,901,466	2,925,986
10	Net OPEB obligation at beginning of year	10,527,125	7,625,659	4,699,673
11	Net OPEB obligation at end of year = $(9+10)$	12,123,596	10,527,125	7,625,659
12	Percentage funded = $(8/7)$	61%	49%	49%

## Actuarial Information and Significant Actuarial Assumptions

The actuarial assumptions are intended to estimate the future experience of the members of the above mentioned plans.

	Firefighters' Pension System	Police Pension System
<b>Valuation date</b>	12/31/2012	12/31/2012
<b>Actuarial cost method</b>	Entry age normal	Entry age normal
<b>Amortization method</b>		
Funding	30 years	30 years
<b>Remaining amortization years (closed)</b>	25 (January 1, 2007)	25 (January 1, 2007)
<b>Asset valuation method</b>	Fair market value	Fair market value
<b>Actuarial assumptions</b>		
Investment rate of return	4.0%	3.0%

## Note 7

### Risk Management

The City is self-insured for Unemployment Insurance, Workers' Compensation, General Liability, and Medical/Dental benefits. Unrestricted net position (assets less liabilities) in the self-insurance funds as of December 31, 2013 and 2012 are as follows:

Fund	2013	2012
Risk Management	\$ 516,488	\$ 735,840
Workers' Compensation	1,926,484	1,686,076
Unemployment Insurance	903,949	1,045,959
Employee Benefits	13,952,504	11,859,908
	<b>\$ 17,299,425</b>	<b>\$ 15,327,783</b>

The City carries the following excess insurance coverages.

#### Workers' Compensation

The City carries statutory limits for excess Workers' Compensation insurance above its self-insured retention of \$1,000,000.

#### General and Automobile Liability

The City carries \$10 million excess general and automobile liability insurance above its self-insured retention of \$1,000,000.

#### Property/Boiler and Machinery

The City carries \$100 million loss limit for all risk property insurance and carries boiler and machinery insurance, with a deductible of \$10,000, and coverage up to \$100 million loss limits. The City also carries property coverage for its hydro dam in the amount of \$100 million, with a \$1 million self-insured retention, and property coverage of the Riverside Park Water Reclamation Facility in the amount of \$246.2 million, with a \$1 million self-insured retention. In addition, the hydro dam and the Riverside Park Water Reclamation Facility have boiler and machinery coverage up to \$1 million, with a \$100,000 deductible, under the City's Boiler and Machinery policy.

### Claims Liability Valuation

In 2013 the City conducted an actuarial review to determine the estimated claims liability for the Risk Management and Workers' Compensation funds. The estimated loss reserves for the Risk Management fund totaled \$6.8 million and the Workers' Compensation fund totaled \$8.6 million. The Employee Benefits fund reported IBNR (incurred but not reported) claims of \$2.0 million for 2013. Claims expenses are recognized in the Employee Benefits and the Unemployment Insurance funds for claims processed through the fiscal year end. No IBNR claims are reported in the Unemployment Insurance Fund. All self-insured funds are responsible for collecting interfund premiums and for paying claims settlements. Interfund premiums are assessed on the basis of exposure and claims experience and are reported as revenues and expenses.

Changes in the balances of claims liabilities during the past two years are as follows:

Risk Management	2013	2012
Balance, January 1	\$ 4,875,423	\$ 5,469,062
New claims incurred	1,533,751	1,061,195
Adjustments for prior claims	(358,024)	3,260,666
Claims payable	(2,796,352)	(4,915,501)
Balance, December 31	<b>\$ 3,254,798</b>	<b>\$ 4,875,422</b>

Workers' Compensation	2013	2012
Balance, January 1	\$ 4,927,806	\$ 4,159,257
New claims incurred	1,704,828	1,515,117
Adjustments for prior claims	2,408,780	2,260,948
Claims payable	(4,447,653)	(3,007,516)
Balance, December 31	<b>\$ 4,593,761</b>	<b>\$ 4,927,806</b>

## Note 8

### Short-Term Debt

At December 31, 2013, the City had \$1.4 million of local improvement district (LID) progress warrants outstanding. As construction is done on LID projects, progress warrants are issued to contractors. The city treasurer disburses funds to the contractors and carries the progress warrants as treasurer's cash investments. When special assessment bonds are sold, the progress warrants are redeemed. The current progress warrants have interest rates ranging from 2.29% to 4.47%. A summary of progress warrant activity for 2013 follows:

<b>Progress Warrants</b>	<b>2013</b>
Balance, January 1, 2013	\$ 1,466,159
Progress warrants issued	2,436,525
Progress warrants redeemed	(2,427,205)
Balance, December 31, 2013	<b>\$ 1,475,479</b>

## Note 9

### Long-Term Liabilities

#### A. Long Term Debt

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The original amount of general obligation bonds issued in prior years was \$226,301,000.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds are either created by 3/5 majority vote of the people and, therefore, financed by a special tax levy; or created by ordinance, adopted by the City Council, and normally financed from general revenues (councilmanic bonds).

General obligation bonds currently outstanding at December 31, 2013 are as follows:

Name of Issuance	Purpose	Interest Rate	Debt Outstanding
LTGO 2003B	Governmental Activities	1.50% - 5.25%	5,950,000
UTGO 2004	Governmental Activities	3.00% - 5.25%	7,705,000
LTGO 2005A	Governmental Activities	5.00%	5,720,000
LTGO 2005B	Governmental Activities	4.34% - 5.34%	18,685,000
UTGO 2005	Refunding - Governmental Activities	3.00% - 4.00%	1,380,000
UTGO 2007	Governmental Activities	4.00% - 5.00%	39,680,000
UTGO 2008	Governmental Activities	3.50% - 5.00%	35,160,000
UTGO 2010A	Governmental Activities	2.00% - 6.13%	38,710,000
<b>Total general obligation bonds</b>			<b>\$ 152,990,000</b>

The annual debt service requirements to maturity for general obligation bonds are as follows:

Governmental Activities			
Year	Principal	Interest	Total
2014	9,700,000	7,277,133	16,977,133
2015	8,330,000	6,869,913	15,199,913
2016	8,280,000	6,515,530	14,795,530
2017	8,665,000	6,158,175	14,823,175
2018	9,580,000	5,789,590	15,369,590
2019-2023	55,265,000	22,384,962	77,649,962
2024-2028	42,514,059	8,450,142	50,964,201
2029-2033	10,202,228	863,666	11,065,894
<b>Total</b>	<b>\$ 152,536,287</b>	<b>\$ 64,309,111</b>	<b>\$ 216,845,397</b>

Business-Type Activities			
Year	Principal	Interest	Total
2014	-	45,188	45,188
2015	-	45,188	45,188
2016	-	45,188	45,188
2017	-	45,188	45,188
2018	-	45,188	45,188
2019-2023	-	225,940	225,940
2024-2028	155,941	224,005	379,946
2029-2033	297,772	44,833	342,605
<b>Total</b>	<b>\$ 453,713</b>	<b>\$ 720,717</b>	<b>\$ 1,174,430</b>

The City of Spokane has also received government and other loans to provide for the acquisition and construction of capital projects and other purposes. Government and other loans outstanding at year-end are as follows:

Name of Issuance	Purpose	Interest Rate	Debt Outstanding
Public Works Trust Fund Loans	Governmental & Business Type Activities	.50% - 3.00%	\$ 8,730,543
State Community Development Loans	Governmental Activities	0.00%	325,000
State Revolving Loans	Business Type Activities	1.50% - 2.90%	2,528,290
<b>Total government and other loans</b>			<b>\$ 11,583,833</b>

The annual debt service requirements to maturity for government and other loans outstanding are as follows:

Governmental Activities			
Year	Principal	Interest	Total
2014	112,917	5,399	118,316
2015	112,917	4,834	117,751
2016	112,917	4,270	117,187
2017	112,917	3,705	116,622
2018	112,917	3,141	116,058
2019-2023	456,397	7,504	463,902
2024-2028	58,824	294	59,118
2029-2033	-	-	-
2034-2038	-	-	-
2039-2043	325,000	-	325,000
<b>Total</b>	<b>\$ 1,404,806</b>	<b>\$ 29,148</b>	<b>\$ 1,433,954</b>



Business-Type Activities			
Year	Principal	Interest	Total
2014	1,259,289	122,836	1,382,125
2015	1,217,903	113,964	1,331,867
2016	1,057,308	102,138	1,159,446
2017	1,060,434	86,739	1,147,173
2018	914,508	71,267	985,775
2019-2023	3,054,760	235,909	3,290,669
2024-2028	1,237,731	98,680	1,336,411
2029-2033	340,346	25,559	365,905
2034-2038	36,748	1,071	37,819
<b>Total</b>	<b>\$ 10,179,027</b>	<b>\$ 858,163</b>	<b>\$ 11,037,190</b>

### Special Assessment Bonds

Special assessment bonds outstanding at December 31, 2013 were \$640,000. Generally, the outstanding amount includes term bonds with an estimated amount of bonds to be retired each year. Bonds will be called yearly, as monies are available from the collection of property assessments.

Name of Issuance	Issue Date	Maturity	Interest Rate	Debt Outstanding	Due Within One Year
CLID 209	3/15/2002	3/15/2014	5.50%	40,000	40,000
CLID 213	7/1/2004	7/1/2026	5.00%	160,000	13,333
CLID 214	8/15/2005	8/15/2015	4.376%	75,000	25,000
CLID 215	8/1/2006	8/1/2016	4.50%	90,000	22,500
CLID 217	8/15/2007	8/15/2017	4.60%	275,000	55,000
<b>Total special assessment bonds</b>				<b>\$ 640,000</b>	<b>\$ 155,833</b>

### Revenue Bonds

The City issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds are issued to finance the acquisition and construction of capital projects, and are created by ordinance, adopted by the City Council, and financed from enterprise fund revenues. The original amount of revenue bonds issued in prior years was \$3,380,000. There are no revenue bonds outstanding at year-end.

In proprietary funds, unamortized debt issue costs are recorded as deferred charges and bonds are displayed net of premium or discount; annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discount.

At December 31, 2013, the City has \$6.1 million available in debt service funds to service the general bonded debt.

### B. Changes in Long-Term Liabilities

During the year ended December 31, 2013, the following changes occurred in long-term liabilities:

Long-Term Liabilities	Outstanding 01/01/13	Additions	Reductions	Outstanding 12/31/13	Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
General obligation bonds	\$ 163,136,287	\$ -	\$ (10,600,000)	<b>\$ 152,536,287</b>	\$ 9,700,000
Deferred amounts:				-	
Bond premiums at issuance	3,851,684	-	(191,682)	<b>3,660,002</b>	390,915
Bond premiums on refunding	277,085	-	(200,459)	<b>76,626</b>	32,287
Special assessment debt with governmental commitment	965,000	-	(325,000)	<b>640,000</b>	155,833
Government loans	1,614,579	-	(209,773)	<b>1,404,806</b>	112,916
Claims and judgements	17,950,549	92,922	(690,747)	<b>17,352,724</b>	17,352,724
OPEB (other postemployment benefit) liability	10,527,125	2,565,091	-	<b>13,092,216</b>	-
Compensated absences	17,284,503		(2,274,496)	<b>15,010,007</b>	1,143,447
<b>Total long term liabilities - governmental activities</b>	<b>\$ 215,606,812</b>	<b>\$ 2,658,013</b>	<b>\$ (14,492,157)</b>	<b>\$ 203,772,668</b>	<b>\$ 28,888,122</b>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Bonds:					
General obligation bonds	453,713	-	-	<b>453,713</b>	-
Revenue bonds	520,000	-	(520,000)	-	-
Deferred amounts:					
Bond premiums at issuance	-	-	-	-	-
Bond premiums on refunding	(5,040)	5,040	-	-	-
Total bonds payable	968,673	5,040	(520,000)	<b>453,713</b>	-
Government loans	11,167,657	380,591	(1,369,221)	<b>10,179,027</b>	1,259,289
Landfill liabilities:					
Landfill closure	1,678,396	11,264	-	<b>1,689,660</b>	-
Post closure monitoring	13,613,291	1,783	(2,446,554)	<b>11,168,520</b>	-
Compensated absences	4,903,811	287,262	(274,280)	<b>4,916,793</b>	237,512
<b>Total long term liabilities - business-type activities</b>	<b>\$ 32,331,828</b>	<b>\$ 685,940</b>	<b>\$ (4,610,055)</b>	<b>\$ 28,407,713</b>	<b>\$ 1,496,801</b>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end \$2.0

million of internal service funds compensated absences are included in the above amounts.

### Legal Debt Margin

For purposes of determining the legal debt margin, the assessed valuation of the City for year 2013 is \$14,954,871,525. Under State of Washington statutes, general obligation indebtedness pursuant to a vote of the electorate is limited to 2.5% of actual value of taxable property located within the

City. Indebtedness without a vote of the people is limited to 1.5% of actual value subject to the limitation that total general purpose indebtedness may not exceed 2.5% of total valuation. There is a 2.5% limitation each for utility purposes and open space and park facilities purposes.

<b>Legal Debt Margin</b>	<b>Total</b>
General purpose voted and non-voted debt <sup>1</sup>	\$ 234,666,915
Utility voted debt - 2.5%	373,871,788
Open space and park facilities voted debt - 2.5%	337,331,788
<b>Total remaining debt capacity</b>	<b>\$ 945,870,491</b>

### C. Leases

#### Operating Leases

The City entered into a long-term operating lease agreement with the Spokane Airport Board, an agency of the City and County of Spokane, for the site of the Spokane Regional Waste to Energy Facility. The lease, as amended, provides for the following rental payments:

Effective May 1, 2011 the City pays \$0.085 cents per square foot for 1,608,887 feet.

The City has the option of renewing the lease for four consecutive five-year periods subject to certain conditions. The lease ends April 30, 2018. Lease payments for the year ended December 31, 2013 amounted to \$136,755.

The City entered into long term lease contracts with Xerox Corporation for two printers and Copiers Northwest for copy machines. Lease payments for the year ended December 31, 2013 were \$168,962.

<b>Future Years Lease Payments</b>	<b>Total</b>
2014	\$ 316,426
2015	316,426
2016	316,426
2017	136,755
2018	45,585
<b>Total minimum future rental payments</b>	<b>\$ 1,131,620</b>

## Note 10

### Interfund Balance and Transfers

#### A. Interfund Balances

Due to other funds and due from other funds result from goods issued, work performed or services rendered to or for the benefit of another fund of the

same government. Interfund balances at December 31, 2013 were as follows:

<b>Fund</b>	<b>Due From Other Funds</b>	<b>Due To Other Funds</b>
General Fund	\$ 5,256,194	\$ 985,599
Nonmajor Governmental Funds	2,515,268	1,874,702
Water/Sewer Fund	935,432	5,054,136
Solid Waste Fund	661,859	2,395,568
Nonmajor Enterprise Funds	160,972	117,009
Internal Service Funds	2,926,243	2,028,954
Fiduciary Funds	-	-
<b>Total Government Wide</b>	<b>\$ 12,455,968</b>	<b>\$ 12,455,968</b>

#### B. Interfund Loans

Interfund loans for 2013 are as follows:

<b>Loan To:</b>	<b>Loan From:</b>
<b>Property Acquisition Fund</b>	<b>Spokane Investment Pool</b>
Riverfront Conservation Area	2,567,489
Gardner Building	1,544,397
Alki Building	2,386,807
University District Gateway	3,689,797
West Plains Fire Station	825,575
CLID 217	366,900
CLID 218	124,022
CLID 219	287,883
CLID 220	174,658
CLID 221	214,027
CLID 222	1,353,219
Progress Warrants (Note 8)	1,475,479
Less Agency Fund Portion	(107,028)
<b>Total</b>	<b>\$ 14,903,225</b>
<sup>1</sup> The Spokane Investment Pool is allowed to invest up to 10% of its balance in City of Spokane bonds. Loans from this pool provide funds with which to pay the cost of acquiring property for public purposes.	

### C. Interfund Transfers

Interfund transfers for 2013 are as follows:

Transfer From:		Transfer To:					
Fund	General Fund	Street Fund	Park Fund	Parking Meter Fund	Public Safety & Judicial Grants Fund	Intermodal Fund	CD/HS Operations Fund
General Fund	\$ -	\$ 11,923,604	\$ 12,596,517	\$ 690,008	\$ 46,095	\$ 71,369	\$ -
Street Fund	-	-	-	-	-	-	-
Park Fund	-	-	-	-	-	-	-
Parking Meter Fund	-	-	-	-	-	-	-
Real Estate Excise Tax Fund	-	400,000	-	-	-	-	-
Community Development Fund	-	-	-	-	-	-	-
CDBG Program Fund	-	-	40,000	-	-	-	-
Home Rehabilitation Fund	-	-	-	-	-	-	-
Rental Rehabilitation Fund	-	-	-	-	-	-	475,000
WIA Funds (various)	946	-	-	-	-	-	-
Special Assessment [Debt] Fund	-	-	-	-	-	-	-
Special Assessment Guaranty Fund	400,000	-	-	-	-	-	-
Iron Bridge TIF Debt Service	-	-	-	-	-	-	-
University District Debt Service	-	-	-	-	-	-	-
Arterial Street Fund	-	1,300,000	-	-	-	-	-
Special Assessment Construction Fund	-	-	-	-	-	-	-
Capital Improvements 2004 Fund	-	-	-	-	-	-	-
Water/Sewer Fund	-	-	-	-	-	-	-
Solid Waste Fund	-	-	-	-	-	-	-
Golf Fund	-	-	-	-	-	-	-
Building Services Fund	-	-	-	-	-	-	-
Fleet Services Fund	-	-	-	-	-	-	-
Public Works & Utilities Fund	-	-	-	-	-	-	-
Information Technology Fund	-	-	-	-	-	-	-
Accounting Services Fund	-	-	-	-	-	-	-
Risk Management Fund	-	-	-	-	-	-	-
Property Acquisition Fund	-	-	-	-	-	-	-
<b>Total</b>	<b>\$ 400,946</b>	<b>\$ 13,623,604</b>	<b>\$ 12,636,517</b>	<b>\$ 690,008</b>	<b>\$ 46,095</b>	<b>\$ 71,369</b>	<b>\$ 475,000</b>

Transfer From:	Transfer To:							
Fund	Community Development Block Grant Program Fund	Community Development Block Grant Revolving Fund	WIA Funds	GO Bond Redemption Fund	Special Assessment Debt Fund	Information Technology Fund	Property Acquisition Fund	Total
General Fund	\$ -	\$ -	1,016	\$ 1,025,559	\$ -	\$ -	\$ 1,429,170	\$ 27,783,338
Street Fund	-	-	-	1,456,056	8,336	-	-	1,464,392
Park Fund	-	-	-	160,054	6,595	-	-	166,649
Parking Meter Fund	-	-	-	2,279,085	-	-	-	2,279,085
Real Estate Excise Tax Fund	-	-	-	-	-	-	-	400,000
Community Development Fund	-	11,465	-	-	-	-	-	11,465
CDBG Program Fund	-	-	-	-	-	-	368,105	408,105
Home Rehabilitation Fund	277,662	82,544	-	-	-	-	-	360,206
Rental Rehabilitation Fund	-	-	-	-	-	-	-	475,000
WIA Funds (various)	-	-	1,623	-	-	-	-	2,569
Special Assessment [Debt] Fund	-	-	-	-	-	-	557,513	557,513
Special Assessment Guaranty Fund	-	-	-	-	-	-	-	400,000
Iron Bridge TIF Debt Service	-	-	-	42,751	-	-	-	42,751
University District Debt Service	-	-	-	-	-	-	224,655	224,655
Arterial Street Fund	-	-	-	-	-	-	-	1,300,000
Special Assessment Construction Fund	-	-	-	-	-	-	111	111
Capital Improvements 2004 Fund	-	-	-	-	1,425	-	1,585,338	1,586,763
Water/Sewer Fund	-	-	-	-	-	20,400	-	20,400
Solid Waste Fund	-	-	-	-	-	3,672	-	3,672
Golf Fund	-	-	-	22,690	-	-	-	22,690
Building Services Fund	-	-	-	-	-	2,520	-	2,520
Fleet Services Fund	-	-	-	7,545	-	-	-	7,545
Public Works & Utilities Fund	-	-	-	-	-	3,558	-	3,558
Information Technology Fund	-	-	-	201,078	-	-	-	201,078
Accounting Services Fund	-	-	-	-	-	2,604	-	2,604
Risk Management Fund	-	-	-	172	-	-	-	172
Property Acquisition Fund	-	-	-	-	-	7,705	-	7,705
<b>Total</b>	<b>\$ 277,662</b>	<b>\$ 94,009</b>	<b>\$ 2,639</b>	<b>\$ 5,194,990</b>	<b>\$ 16,356</b>	<b>\$ 40,459</b>	<b>\$ 4,164,892</b>	<b>\$ 37,734,546</b>

## Note 11

### Joint Ventures

The City participates in two joint ventures. These are the Spokane International Airport and the Spokane Regional Transportation Council (SRTC). The City does not contribute any monies toward the operation of the Spokane International Airport. General fund monies are contributed to support the Spokane Regional Transportation Council. In 2013, \$15,000 was paid to the Spokane Regional Transportation Council.

Spokane International Airport is jointly operated by the City and County of Spokane through a joint operating agreement in accordance with the "Airport Joint Operating Agreement"; which was last amended February 2, 2010. This agreement is pursuant to RCW 14.08.200. The unaudited summary below is for the fiscal year ended December 31, 2013 for the Spokane International Airport.

<b>Spokane International Airport</b>	<b>2013</b>
Total Assets	\$ 313,877,563
Total Liabilities	39,834,829
Total Net Position	<b>\$ 274,042,734</b>
Total Revenues	\$ 36,762,612
Total Capital Contributions	10,476,583
Total Expenses	39,916,806
Net Increase in Net Position	<b>\$ 7,322,389</b>
Net Position, Beginning of Year	\$ 266,720,345
Net Increase in Net Position	7,322,389
Net Position, End of Year	<b>\$ 274,042,734</b>

At December 31, 2013, the airport had \$13.8 million in long-term revenue bonds outstanding with \$3.0 million due on the current portion in 2014. The bonds are secured by airport revenues. Airport revenues are derived through user fees, parking fees, leased areas and buildings, federal and state grants, and interest from investments. Other long-term debt payable at year-end totaled \$7.0 million.

The Spokane Airport Board administers the operations of the airport. It is composed of seven members, three of which are appointed by the County, three by the City, and one non-specific appointee. The City does not exercise any specific control over the budgeting and financing of the airport's activities. The complete financial report may be obtained by contacting the Spokane International Airport, 9000 W. Airport Drive, Suite 207, Spokane, WA, 99224.

The Spokane Regional Transportation Council operates under an Interlocal Agreement adopted by participating entities that include the City of Spokane, Spokane County, Spokane Transit Authority (STA), the City of Spokane Valley, Washington State Department of Transportation (WSDOT), Washington State Transportation Commission, the Spokane Airport Board (SAB), and the incorporated towns within the County. In 1965 the Washington State Legislature created the current statutory authority that provided for coordinated regional planning within the State.

The Council operates under a Board consisting of fourteen voting members and three ex-officio non-voting members. Voting members consist of two County Commissioners, two City Council members, three elected officials representing the small cities, one elected official representing small towns, one representative from the Spokane Valley, one person representing STA, (the STA Chief Executive Officer), one representative from WSDOT, one member from the Washington State Transportation Commission, one member from a private sector transportation provider, and one member representing the SAB (the SAB Chief Executive Officer). Ex-officio members consist of one member representing rail, the Chair of the Transportation Advisory Committee, and the Chair of the SRTC Transportation Technical Committee. The board selects management of the Council. Control over collection and disbursement of funds resides with the Council.

The unaudited summary below is for the fiscal year ended December 31, 2013. The Spokane Regional Transportation Council is audited by the Office of State Auditor.



<b>Spokane Regional Transportation Council</b>	<b>2013</b>
Total Assets	\$ 323,883
Total Liabilities	323,883
Total Net Position	<b>\$ -</b>
Total Revenues	\$ 1,337,964
Total Expenses	1,198,204
Net Increase in Net Position	<b>\$ 139,760</b>

At December 31, 2013 the Spokane Regional Transportation Council had no long-term debt outstanding. The complete financial report may be obtained by contacting the Spokane Regional Transportation Council, 221 W. First Ave., Suite 310, Spokane, WA, 99201.

## Note 12

### Enterprise Funds

#### A. Water/Sewer Fund

##### Property, Plant and Equipment

Some hydrants and some water mains are recorded at estimated costs.

##### Contracts Receivable and Due From Other Governmental Units

During 1982, the City of Spokane and Spokane County entered into an Interlocal Agreement whereby the County agreed to pay \$5,779,709 for sewage treatment capacity at the Riverside Park Water Reclamation Facility. Per the agreement, the City will process up to ten million gallons per day for the County. Payments were adjusted annually using an implicit price deflator with January 1985 as the base period. The final capacity payment was received in 1999. Currently only annually adjusted operations and maintenance treatment charges, pretreatment charges, and 10/44ths of water quality capital improvements at the Riverside Park Water Reclamation Facility are billed to Spokane County under the 1982 Interlocal Agreement.

The City of Spokane and the City of Airway Heights entered into an agreement under which Airway Heights agreed to pay \$2,040,000, in 1992 dollars, for sewage treatment capacity at the Riverside Park Water Reclamation Facility. Per the agreement, the City will process up to 680,000 gallons per day for Airway Heights. The final capacity payment was received in 2006. Airway Heights no longer sends flows for treatment to the Riverside Park Water Reclamation Facility.

The City of Spokane and Fairchild Air Force Base entered into an agreement under which Fairchild Air Force Base agreed to pay \$3,000,000, in 1992 dollars, for sewage treatment capacity at the Riverside Park Water Reclamation Facility. Per the agreement, the City will process up to 1,000,000 gallons per day for Fairchild. Payments are revised annually and are anticipated to be collected in full by mid-year 2015.

##### Spokane County Utility Tax Payments

In October 2003, Spokane County began withholding the portion of its wastewater bill it computed as representing municipal taxes. In November 2003, Spokane County commenced a lawsuit to determine if the municipal taxes should

be included as an expense in the calculation of the wastewater treatment rate for Spokane County. In January 2007, an agreement was reached in mediation between the City and Spokane County, which was approved by the Spokane City Council on April 30, 2007.

The agreement resulted in Spokane County paying \$1,500,000 to the City on the outstanding balance of their utility bill and the City removing the tax component from its billings to Spokane County. The County will continue to make payments to the City, on a sliding percentage rate of their charges for wastewater utility services, in lieu of taxes, until the year 2021. Beginning in the year 2022, there will be no further payments in lieu of taxes.

#### B. Solid Waste Management Fund

##### Spokane Regional Solid Waste Management System

Environmental, economic and regulatory concerns led the City and Spokane County, on a joint basis, to conduct a lengthy and extensive investigation into a regional approach to the management, handling and disposal of solid waste collected in the City and other areas of the County that would give priority to disposal methods other than landfilling. This cooperative effort has resulted in the Spokane Regional Solid Waste Management System (the "System").

The City and Spokane County entered into several interlocal agreements, which provide the framework for the management, handling and disposal of solid waste within the service area, consisting of the City, the unincorporated area of the County and the Regional Cities. The City owns and operates the System but neither the City nor the County may use the System to the exclusion of the other. The City is responsible for the financing and construction of all improvements to the System and for the management of the System except with respect to certain major decisions for which the concurrence of the County is required.

The interlocal agreement is for a term of 25 years, or for such longer term as the financing bonds remain outstanding, and will be renewed automatically for successive 20-year terms unless the City and County agree not to renew it. The interlocal agreement has been amended such that it now terminates on November 16, 2014.

The System includes a mass burn waste to energy facility, two transfer stations, and three recycling

centers located at the facility and the transfer stations. Ash from the waste to energy facility is hauled to the Roosevelt Regional Landfill in South Central Washington.

The waste to energy facility was completed during 1991. Wheelabrator Spokane Inc. operates the facility pursuant to a 20-year operation and maintenance contract with the City. Pursuant to a service contract, the City has agreed to pay a service fee to Wheelabrator Spokane Inc. based on a minimum of 220,000 tons of acceptable waste per year. This quantity of solid waste represents approximately 90 percent of the facility's 248,200 ton contracted capacity. The service contract has been extended for three years through November 16, 2014.

The City and Puget Sound Power and Light Company, a Washington corporation, entered into an agreement for Firm Power Purchase of energy produced by the Spokane Regional Solid Waste Management System's waste to energy facility. Subject to the terms thereof, the electricity agreement requires Puget Sound Power to purchase all electric output of the Facility, net of in-plant use, for 21 years commencing November 15, 1991. This contract expired on December 31, 2011. The City and Avista Corporation entered in a Power Purchase Agreement for purchase of energy produced by the facility subject to the terms thereof. The contract requires Avista Corporation to purchase all electric output of the facility for a period beginning on January 1, 2012, and ending on November 16, 2014.

In order to provide funds for the closure, post-closure, and remedial actions of Spokane County's pre-existing landfills, the City agreed in an interlocal agreement to provide to the County an amount not to exceed \$20 million. The interlocal agreement states that such costs will be recovered from rates charged by the Spokane Regional Solid Waste Management System. The \$20 million has been provided to the County and those costs have been recovered by the Spokane Regional Solid Waste System.

#### **Landfill Closure**

On July 21, 1987, the City ceased disposal operations at its Southside Landfill. During 1988, the Southside landfill closure was completed at a total cost of \$5.4 million. These closure costs were paid using previously reserved cash and the total closure amount was recorded as an expense in 1988.

The City started closing the Northside Landfill in 1991. The closure was completed during 1993 for a total cost of \$19.4 million. These closure costs were paid using approximately \$3.1 million of previously reserved cash and \$16.3 million of the Spokane Regional Solid Waste Management System Revenue Bond proceeds. The City Council and Spokane County Board of County Commissioners approved an interlocal agreement which required that tipping fees established by the Spokane Regional Solid Waste Management System shall have a landfill closure component which will provide a source of revenue to the City and the County for the payment of pre-existing landfill costs. The City's portion of the closure component covers the debt service requirements on \$16.3 million of revenue bond proceeds. A Northside landfill closure liability was recorded as a deferred cost on January 1, 1988 and was charged to expense over a 20 year period as these amounts were recovered through rates charged to customers. The deferred cost was fully amortized during 2007.

#### **Northside Regional Landfill**

Beginning in 1992, the City started using a recently completed Northside Regional Landfill for the disposal of by-pass waste and demolition debris. The 16 acre cell has a capacity of approximately 400,000 cubic yards (Phase I) and may be increased an additional 600,000 cubic yards (Phase II). State and federal laws and regulations require the City to place a final cover on the Northside Regional Landfill when it stops accepting waste and to perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. Postclosure care consists of (1) maintaining the integrity and effectiveness of the final cover; (2) maintaining and operating the leachate collection system; (3) maintaining and operating the ground and surface water monitoring systems; and (4) maintaining and operating the gas monitoring systems. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City recognizes a portion of these costs in each operating period based on landfill capacity used as of the balance sheet date.

The \$1.7 million reported as landfill closure liability at December 31, 2013 represents the cumulative amount reported based on the use of 63 percent of the estimated capacity of Phase 1. This landfill has a remaining useful life of approximately 12 years. The City will recognize the remaining estimated

cost of closure of \$.9 million as the remaining estimated capacity (Phase 1) is filled. All amounts recognized are based on what it would cost to perform all closure and postclosure care in 2013. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

As of December 31, 2013, the City held \$1.7 million of restricted cash, which is reserved for the closure of the Northside Regional Landfill (Phase 1).

#### **Postclosure Landfill Monitoring**

The \$11.1 million reported as landfill postclosure care liability at December 31, 2013 represents the cumulative amount required to monitor and maintain the closed portion of the Northside landfill, the open portion (Phase 1) of the Northside Regional landfill and the closed Southside landfill for the next 20-30 years. All amounts recognized are based on what it would cost to perform all postclosure care in 2013. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The City has restricted \$4.9 million in assets related to the post-closure monitoring of the closed portion of the Northside landfill, and \$3.9 million for post-closure monitoring of the open portion of the Northside landfill. No assets have been restricted for future costs of \$2.3 million for the Southside landfill based on the City's interpretation of the applicability of Washington Administrative Code 173-304-467.

### **C. Golf Fund**

#### **Revenue Bond Covenants**

In March of 1991 the City issued \$5.8 million of golf system revenue bonds. These were issued with an average interest rate of 7.1035%. These bonds were issued to finance the construction of a fourth municipal City golf course.

In March of 1997 the City issued \$3.38 million of golf system revenue refunding bonds to partially refund the 1991 bonds. These were issued with an average interest rate of 5.25%. The unrefunded 1991 Golf Bonds have matured and were paid in full on December 1, 2006.

A requirement of the bond ordinance was to establish a rate covenant that provides that net revenue of the Golf fund will equal at least 1.25 times the debt service on the bonds and any additional bonds in that year. The ordinance also provides for the establishment of a reserve account

to secure the payment of principal and interest on the bonds. The reserve account for the bonds is an amount equal to the lesser of a) 10% of the bond proceeds, b) the maximum annual debt service, or c) 125% of the average annual debt service on the bonds. There is no intention of issuing additional revenue bonds for golf purposes at this time. The reserve account has been established in the Golf Debt Service fund.

The Golf Fund revenue did not meet the rate covenant for 2013. The net revenue ratio, as stated above, requires the net revenue be 1.25 times the debt service on the bonds. Although the net revenue ratio was only 0.78 for 2013, the debt was fully retired during 2013.

## Note 13

### Commitments & Contingencies

#### A. Disability Supplemental Pensions

The Department of Labor and Industries made a determination that four employees of the City were totally disabled as the result of industrial injuries. This determination required the employees to be placed on the pension rolls of the Department of Labor and Industries supplemental pension fund and provided for monthly pension benefits. Since the City is self-insured, the City is responsible for funding these pension benefits. The City has deposited \$427,949 with the State of Washington which represents the full present value (as of June 30, 1995) of the pensions. The State will invest the \$427,949 on the City's behalf and pay pensions each month from that deposit. Interest earnings will accrue to the deposit. Each year, in June, the pensions are actuarially re-evaluated and excess monies, from interest earnings and decreasing present value, are returned to the City. As of June 30, 2013, there are three pensioners remaining. The current value of the deposit, as of June 30, 2013, was \$262,567. In 2013, a deposit of \$744,120 was made for an additional pension, for a total deposit with the State of \$1,006,687.

#### B. Downtown Housing Stabilization

The Downtown Housing Stabilization Program is a program developed by the Financial Issues Task Force of the Downtown Capital Needs Committee in the early 1990s. The Stabilization Program was designed to maximize opportunities for private investment to respond to the critical need for affordable housing units for low-income residents of the Downtown Community. The City has assumed the role of Loan Loss Guarantor for loans made by private investors on properties purchased as part of the program. No new loans have been made under this program since 1994.

#### C. Spokane Public Facilities District

In August 2003 the City executed an interlocal agreement with the Spokane Public Facilities District (PFD) related to the Spokane Convention Center, the Spokane Opera House, and the Washington State International Agricultural Trade

Center (collectively known as the Spokane Center) and the Spokane Veterans Memorial Arena. The purpose of the agreement was to set forth agreements relating to PFD's acquisition of the existing facilities, the expansion of the Spokane Convention Center, and the operation and maintenance of the Spokane Center facilities and the Arena. The agreement terminated the City's operation agreement for the Arena, and transferred 2/3 ownership of the Spokane Center assets to the PFD. The interlocal agreement also laid out certain annual obligations of the City to the PFD related to the Spokane Center. This agreement was modified in May 2009 and contains the following stipulations:

1. The City will transfer to the PFD all admission taxes collected at Spokane Center and Arena events.
2. The City will transfer to the PFD all lodging tax revenues collected, after deducting amounts sufficient to service the City's outstanding debt payments related to Spokane Center assets and \$100,000 annually to be allocated by the City's Lodging Tax Advisory Committee. The \$100,000 allocation shall be adjusted annually by using the Consumer Price Index (CPI) or other closely related index if that index is discontinued. If the CPI is greater than 2%, the City can consider negotiation of transferring the incremental increase to the District, but is not required to do so.

This agreement is valid through December 31, 2038.

#### D. Construction Commitments

The City has active construction projects as of December 31, 2103. The projects include street construction, parks, water/sewer infrastructure and transfer station upgrades, and technology upgrades. At year end, outstanding construction commitments are as follows:

Construction Commitments	Original Commitment	Spent to Date	Remaining Commitment at 12/31/13
11th, Latah Bridge - CDA; 12th, Spruce - Inland Empire Way	55,021	29,361	25,660
14th and Queen Paving	130,677	105,512	25,165
14th Avenue, Monroe to Grand	1,332,447	1,318,586	13,861
29th Avenue, High Drive to Grand	2,808,395	2,514,702	293,694
3rd Avenue, Division to Arthur	1,890,736	1,786,560	104,175
8th & Chandler Transmission	982,200	-	982,200
8th/9th Ave.	200,000	-	200,000
Adams, 21st to 15th Avenues	950,134	923,170	26,964
Ash/Maple PED Timers	99,612	23,462	76,150
Audio system installation	28,240	-	28,240
Carrousel roof	19,080	-	19,080
Cedar/Country Homes Intersection	476,938	-	476,938
Centennial Trail	548,835	-	548,835
Clean Digester No. 1	177,480	-	177,480
Clocktower repairs	22,729	-	22,729
Community Development Sidewalks	538,000	412,961	125,039
Northside Landfill Rehabilitation	383,374	336,709	46,665
Crestline, 37th to 57th Water Main Replacement	3,115,609	2,694,210	421,399
CSO Control Facility	5,133,961	914,144	4,219,817
CSO Reduction Program	4,788,857	607,039	4,181,818
Cure Sanitary Sewer	1,065,633	-	1,065,633
Division St. River-N City Limits	805,912	776,329	29,583
Division, Maple, Ash	1,772,268	1,468,266	304,002
Downtown Bicycle Network	463,960	414,477	49,483
Electrical Engineering Services	65,084	55,691	9,392
Euclid, Mayfair - Crestline Water	2,346,441	2,177,162	169,280
Fiske, 19th - 17th	182,097	149,131	32,966
Flint Road Signal Project	99,459	-	99,459
Francis, Crestline to Haven	1,341,408	1,248,414	92,994
Francis, Division to Crestline	2,880,612	-	2,880,612
Gaiser conservatory	24,395	18,570	5,825
Green St Bridge	3,057,983	1,530,512	1,527,471
Hamilton/Nevada PED Timers	32,484	-	32,484
Havana St Bridge	6,222,479	5,880,145	342,334
Improvements WTE facility	8,600,000	5,738,467	2,861,533
King Cole bridge pathway	27,906	-	27,906
Lift Stations Backup Power	475,497	422,722	52,775
Lincoln Heights Booster Station	2,568,243	1,138,922	1,429,322
Liquids Phase 2 - Package A	15,530,617	14,447,995	1,082,622
Low Impact Development Stormwater Facilities	30,000	7,714	22,286
Manito Park walls	8,805	7,455	1,350
Transfer Station Design Projects	23,000	13,790	9,210
Mirror Pond	20,133	10,575	9,558
Nelson Service Center	14,543,790	127,709	14,416,081
Northside Landfill Gate	15,196	-	15,196

<b>Construction Commitments</b>	<b>Original Commitment</b>	<b>Spent to Date</b>	<b>Remaining Commitment at 12/31/13</b>
Package B - Digester Gases	6,817,001	953,583	<b>5,863,418</b>
Post Street One Way Conversion	20,467	15,654	<b>4,813</b>
Post Street Bridge inspection	11,420	8,731	<b>2,689</b>
Professional Svcs - HRMS	21,000	-	<b>21,000</b>
Program Management - CSO	20,413,605	19,972,785	<b>440,820</b>
Riverside, Altamont - Cook and Cook, Sprague - Riverside	1,630	111	<b>1,519</b>
Rockwood, Cowley to SE Blvd	2,465,503	1,591,618	<b>873,885</b>
Rowan Avenue Sidewalk, Belt to Monroe	305,357	-	<b>305,357</b>
Sekani Shelter	38,987	-	<b>38,987</b>
Spokane Falls Blvd Enhancements	1,394,279	1,203,338	<b>190,941</b>
Springfield Lift Station Replacement	646,603	502,371	<b>144,232</b>
Stormwater Facility	2,064,426	1,049,447	<b>1,014,980</b>
Traffic Calming	272,796	197,335	<b>75,461</b>
Upgrade Primary Solids Pump Station	4,554,189	3,886,089	<b>668,100</b>
Valley Transfer Station	11,267	-	<b>11,267</b>
<b>Total Construction Commitments</b>	<b>\$ 124,924,265</b>	<b>\$ 76,681,528</b>	<b>\$ 48,242,737</b>



## Note 14

### Prior Period Adjustments

The Statement of Activities reports a net increase to net position of \$13,283,725 as follows:

<b>Governmental Activities</b>	
General Fund	\$ (544,521)
Street Fund	75,868
Law Enforcement Info Systems Fund	206,802
Real Estate Excise Tax Fund	75,868
Public Safety & Judicial Grants Fund	(34,624)
Criminal Justice Assistance Fund	253,181
Information Technology Fund	(50,282)
Employee Benefits Fund	1,809,256
	<b>1,791,548</b>
<b>Capital Asset Correction<sup>1</sup></b>	
Parks Fund	(456,547)
Street Fund	(175,897)
Total	<b>\$ 1,159,104</b>
<sup>1</sup> Because capital assets in the governmental funds are not reflected in the fund financial statements, corrections of prior period balances only affect the government-wide financial statements.	

<b>Business-Type Activities</b>	
Water/Sewer Fund	(15,251,015)
Total	<b>\$ (15,251,015)</b>

#### Governmental Activities

\$174,623 decrease in the General Fund due to an understatement of business taxes in the prior year.

\$162,366 decrease in the General Fund due to a correction of a prior year liability related to the Public Safety building.

\$1,320 decrease in the General Fund due to the refunds of prior year permits.

\$199,877 decrease in the General Fund due to an understatement of election costs in the prior year.

\$6,335 decrease in the General Fund due to the correction of prior year accruals.

\$75,868 increase in the Street Fund due to a correction of prior year accrual.

\$75,868 increase in the Real Estate Excise Tax Fund due to a correction of prior year accrual.

\$206,802 increase in the Law Enforcement Information Systems Fund due to a prior year adjustment for common costs of the Public Safety Building.

\$34,624 decrease in the Public Safety and Judicial Grants Fund to reclassify prior year grant program income for ineligible expenses/grant findings as recommended by the cognizant agency (Department of Justice).

\$253,181 increase in the Criminal Justice Assistance Fund due to the correction of a prior year accrual.

\$50,282 decrease in the Information Technology Fund due to a correction of a prior year accrual.

\$1,809,256 increase in the Employee Benefits Fund due to an estimated rate stabilization refund for prior year premiums paid to Group Health.

#### Business-Type Activities

\$15,251,015 decrease in the Water/Sewer Fund due to a change in accounting methodology used to calculate the historical cost of water main replacements.



## Note 15

### Legal Matters

In the normal course of governmental operations the City has claims filed against it for various losses related to tort actions for such things as wrongful acts, injuries, or damages for which a civil action can be brought, and other routine legal proceedings. At any given point in time, there is a recurring volume of tort and other claims for compensation and damages against the City, which could impact expenditures. The City's Risk Management Fund provides for these claims, and insurance is available to pay a portion of damages for certain types of claims. The collective impact of these claims is not likely to have a material impact on the City's financial position. There are no known pending or anticipated legal matters that would materially affect the financial statements of the City for the year ending December 31, 2013.

**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund Accounts**  
**For the Year Ended December 31, 2013**

	Original Budget	Final Budget	Actual	Eliminations	Variance with Final Budget-Positive (Negative)
<b>RESOURCES</b>					
Taxes	\$ 128,881,005	\$ 128,881,005	\$ 130,269,475	\$ -	\$ 1,388,470
Licenses and permits	6,479,000	6,479,000	6,424,954	-	(54,046)
Intergovernmental	5,242,428	5,322,428	3,267,477	-	(2,054,951)
Charges for services	15,829,536	16,044,466	14,583,391	-	(1,461,075)
Fines and forfeitures	3,204,500	3,204,500	2,862,356	-	(342,144)
Miscellaneous	3,133,550	2,783,550	2,310,105	-	(473,445)
<b>Total resources</b>	<b>162,770,019</b>	<b>162,714,949</b>	<b>159,717,758</b>	<b>-</b>	<b>(2,997,191)</b>
<b>EXPENDITURES</b>					
General government	21,989,439	22,569,311	21,852,608	-	716,703
Public safety	89,240,202	90,786,008	89,789,347	-	996,661
Utilities environment	-	-	-	-	-
Transportation	7,892,819	8,306,199	7,324,204	-	981,995
Economic environment	6,111,151	6,671,685	5,178,683	-	1,493,002
Mental and physical health	110,080	120,080	118,064	-	2,016
Culture and recreation	8,210,276	8,419,623	8,278,029	-	141,594
Capital outlay	2,065,541	2,620,066	2,216,660	-	403,406
Debt service:	-	-	-	-	-
Interest	10,000	10,000	-	-	10,000
<b>Total expenditures</b>	<b>135,629,508</b>	<b>139,502,972</b>	<b>134,757,595</b>	<b>-</b>	<b>4,745,377</b>
<b>Excess resources over expenditures</b>	<b>27,140,511</b>	<b>23,211,977</b>	<b>24,960,163</b>	<b>-</b>	<b>1,748,186</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Sale of capital assets	-	-	74,604	-	74,604
Collection of revolving loans	-	-	-	-	-
Transfers in	9,027,950	9,377,950	9,344,658	(8,943,712)	(33,292)
Transfers out	(36,911,805)	(36,865,805)	(36,727,050)	8,943,712	138,755
<b>Total other financing sources (uses)</b>	<b>(27,883,855)</b>	<b>(27,487,855)</b>	<b>(27,307,788)</b>	<b>-</b>	<b>180,067</b>
<b>Excess (deficiency) of revenues and other sources over (under) expenditures and other uses</b>	<b>(743,344)</b>	<b>(4,275,878)</b>	<b>(2,347,625)</b>	<b>-</b>	<b>1,928,253</b>
<b>Other changes in fund balance</b>					
Prior period adjustment	-	-	(544,521)	-	(544,521)
<b>Fund Balance - beginning</b>	<b>38,510,147</b>	<b>38,510,147</b>	<b>38,510,147</b>	<b>-</b>	<b>-</b>
<b>Fund Balance - ending</b>	<b>\$ 37,766,803</b>	<b>\$ 34,234,269</b>	<b>\$ 35,618,001</b>	<b>\$ -</b>	<b>\$ 1,383,732</b>

## Required Supplementary Information

### Schedule of Funding Progress

<b>Schedule of Funding Progress</b> <b>Employees' Retirement System</b> Valuation Years 2013 through 2007 (dollars in thousands)							
	2013	2012	2011	2010	2009	2008	2007
Actuarial valuation date	12/31/2013	12/31/2012	12/31/2011	12/31/2010	12/31/2009	12/31/2008	12/31/2007
Actuarial value of plan assets	\$ 261,605	\$ 241,425	\$ 241,611	\$ 241,748	\$ 231,997	\$ 193,314	\$ 242,615
Actuarial accrued liability	381,039	364,716	351,318	334,849	317,577	295,223	272,202
Unfunded actuarial liability	119,434	123,291	109,707	93,101	85,580	101,909	29,587
Percent age funded	68.7%	66.2%	68.8%	72.2%	73.1%	65.5%	89.1%
Covered payroll	87,337	89,015	90,264	88,094	83,455	74,183	69,262
Unfunded actuarial liability as a percentage of covered payroll	136.75%	138.51%	121.54%	105.68%	102.55%	137.38%	42.72%
Source: City of Spokane							

<b>Schedule of Funding Progress</b> <b>Firefighters' Pension System</b> Valuation Years 2012 through 2003 (dollars in thousands)							
	2012	2010	2008	2006	2005	2004	2003
Actuarial valuation date	12/31/2012	12/31/2010	12/31/2008	12/31/2006	12/31/2005	12/31/2004	12/31/2003
Actuarial value of plan assets	\$ 12,571	\$ 14,246	\$ 15,259	\$ 13,325	\$ 12,480	\$ 12,960	\$ 13,080
Actuarial accrued liability	25,755	29,639	33,364	32,728	27,565	15,590	10,494
Unfunded actuarial liability	13,184	15,393	18,105	19,403	15,085	2,630	(2,586)
Percent age funded	49%	48%	46%	41%	45%	83%	125%
Covered payroll	N/A	244	217	380	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	N/A	6309%	8343%	5106%	N/A	N/A	N/A
Beginning in 2008, the City began using a two-year actuarial cycle.							
Source: City of Spokane							

## Schedule of Funding Progress cont.

<b>Schedule of Funding Progress</b> <b>Police Pension System</b> Valuation Years 2012 through 2003 <i>(dollars in thousands)</i>							
	2012	2010	2008	2006	2005	2004	2003
Actuarial valuation date	12/31/2012	12/31/2010	12/31/2008	12/31/2006	12/31/2005	12/31/2004	12/31/2003
Actuarial value of plan assets	\$ 664	\$ 714	\$ 929	\$ 659	\$ 787	\$ 963	\$ -
Actuarial accrued liability	10,599	12,450	18,350	16,480	14,332	6,538	7,174
Unfunded actuarial liability	9,935	11,736	17,421	15,821	13,545	5,575	7,174
Percent age funded	6%	6%	5%	4%	5%	15%	0%
Covered payroll	N/A	143	136	176	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	N/A	8207%	12810%	8989%	N/A	N/A	N/A
Beginning in 2008, the City began using a two-year actuarial cycle.							
Source: City of Spokane							

# Schedule of Employer Contributions

<b>Schedule of Contributions from Employers</b> <b>Other Postemployment Benefits</b> For the Fiscal Years Ended December 31, 2013 through 2007 <i>(dollars in thousands)</i>							
	2013	2012	2011	2010	2009	2008	2007
<b>Employees' Retirement System</b>							
Employer's annual required contribution	\$ 8,237	\$ 8,326	\$ 10,011	\$ 8,955	\$ 8,267	\$ 8,827	\$ 5,743
Employer's actual contribution	6,715	6,938	6,799	6,581	6,474	4,875	4,518
Percentage contributed	81.52%	83.33%	67.92%	73.49%	78.31%	55.23%	78.67%
Annual pension cost	8,687	8,734	10,337	9,219	8,485	8,950	5,835
Net pension obligation	21,293	19,322	17,525	13,988	11,349	9,339	5,265
<b>Firefighters' Pension System</b>							
Employer's annual required contribution	\$ 865	\$ 1,071	\$ 1,071	\$ 1,215	\$ 1,215	\$ 1,262	\$ 1,262
Employer's actual contribution	2,183	440		758	697	1,360	2,082
Percentage contributed	252%	41%	0%	62%	57%	108%	165%
Annual pension cost	834	1,058	1,077	1,228	1,234	1,279	1,268
Net pension obligation	(20)	1,329	711	(366)	(835)	(1,373)	(1,291)
<b>Police Pension System</b>							
Employer's annual required contribution	\$ 587	\$ 734	\$ 734	\$ 1,045	\$ 1,045	\$ 1,029	\$ 1,029
Employer's actual contribution	845	870	849	768	1,037	1,108	1,450
Percentage contributed	144%	118%	116%	73%	99%	108%	141%
Annual pension cost	529	685	684	1,003	1,005	998	995
Net pension obligation	1,807	2,123	2,308	2,473	2,238	2,270	2,380
<i>Source: City of Spokane</i>							

## Other Postemployment Benefits

<b>Schedule of Funding Progress</b> <b>Other Postemployment Benefits</b> <b>Firefighters' Pension System</b> Valuation Years 2012 through 2006 <i>(dollars in thousands)</i>				
<b>Firefighters' Pension System</b>	<b>2012</b>	<b>2010</b>	<b>2008</b>	<b>2006</b>
Actuarial valuation date	12/31/2012	12/31/2010	12/31/2008	12/31/2006
Actuarial value of plan assets	\$ 12,576	\$ 7,889	\$ 5,133	\$ 3,347
Actuarial accrued liability (AAL)	62,779	77,975	65,479	55,666
Unfunded actuarial accrued liability (UAAL)	50,203	70,086	60,346	52,319
Funded ratio	20%	10%	8%	6%
Covered payroll	N/A	N/A	N/A	N/A
UAAL as a percentage of covered payroll	N/A	N/A	N/A	N/A
Beginning in 2008, the City began using a two-year actuarial cycle.				
Source: City of Spokane				

<b>Schedule of Funding Progress</b> <b>Other Postemployment Benefits</b> <b>Police Pension System</b> Valuation Years 2012 through 2006 <i>(dollars in thousands)</i>				
<b>Police Pension System</b>	<b>2012</b>	<b>2010</b>	<b>2008</b>	<b>2006</b>
Actuarial valuation date	12/31/2012	12/31/2010	12/31/2008	12/31/2006
Actuarial value of plan assets	\$ -	\$ -	\$ -	\$ -
Actuarial accrued liability (AAL)	73,197	91,069	74,045	51,370
Unfunded actuarial accrued liability (UAAL)	73,197	91,069	74,045	51,370
Funded ratio	0%	0%	0%	0%
Covered payroll	N/A	N/A	N/A	N/A
UAAL as a percentage of covered payroll	N/A	N/A	N/A	N/A
Beginning in 2008, the City began using a two-year actuarial cycle.				
Source: City of Spokane				

# Notes to the Required Supplementary Information

For the Fiscal Year Ended December 31, 2013

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. The actuarial methods and significant assumptions used in these valuations are available in the publicly available actuary reports for the three pension plans. These reports may be obtained by writing to the Spokane Employees' Retirement System, City Hall, 808 West Spokane Falls Blvd, Spokane, Washington, 99201 or by calling (509) 625-6330.

**CITY OF SPOKANE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For The Year Ended December 31, 2013**

1	2	3	4	5			6
FEDERAL AGENCY NAME/ PASS-THROUGH AGENCY NAME	FEDERAL PROGRAM NAME	CFDA NUMBER	OTHER AWARD NUMBER	Expenditures			Foot- note Ref.
				From Pass- Through Awards	From Direct Awards	Total	
U.S. Dept of Agriculture/ Pass-Through from WA State Dept. of Natural Resources	Cooperative Forestry Assistance	10.664	IAA 12-232	8,247		8,247	
U. S. Department of Housing and Urban Development	Community Development Block Grants/Entitlement Grants	14.218	Program Income B11-MC-530006 B12-MC-530006 Program Income Program Income Subtotal		4,827 1,393,600 1,071,578 927,708 <u>876,727</u> 4,274,440		3  3 3
U. S. Department of Housing and Urban Development/ Pass-Through from WA State Dept. of Commerce	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	08-F6401-019 11-67400-004 Subtotal	195,519 <u>1,051,072</u> 1,246,591		1,246,591	
U. S. Department of Housing and Urban Development	Emergency Solutions Grant Program	14.231	S11-MC-530002 S12-MC-530002 S13-MC-530002 Subtotal		34,400 220,350 <u>119,078</u> 373,828	373,828	9 9 9
U. S. Department of Housing and Urban Development	Supportive Housing Program	14.235	N/A N/A Subtotal		1,255,196 <u>69,917</u> 1,325,113	1,325,113	9 9
U. S. Department of Housing and Urban Development	Shelter Plus Care	14.238	N/A		354,068	354,068	9
U. S. Department of Housing and Urban Development	Home Investment Partnerships Program	14.239	M09-MC-530201 Program Income M10-MC-530201 Program Income M11-MC-530201 M12-MC-530201 Program Income Program Income Subtotal		242,988 166,500 233,347 116,075 943,219 128,159 19,788 <u>99,685</u> 1,949,761	1,949,761	3  3  3 3
U. S. Department of Housing and Urban Development	ARRA-Neighborhood Stabilization Program (Recovery Act Funded)	14.256	B09-NI-WA-0009		5,293	5,293	6 8A 9
U. S. Department of Housing and Urban Development	Continuum of Care Program	14.267	WALOT021205		1,151,308	1,151,308	9
U. S. Department of Housing and Urban Development/ Pass-Through from WA State Dept. of Commerce	Lead-Based Paint Hazard Control in Privately-Owned Housing (Recovery Act Funded)	14.900	WAHLP0523-12	62,989		62,989	
U.S. Department of Housing and Urban Development	Lead Hazard Reduction Demonstration Grant Program	14.905	WA LHD 0239-12		598,606	598,606	
U.S. Department of Interior/ Pass-Through from WA State Dept. of Archaeology and Historic Preservation	Historic Preservation Fund Grants-In-Aid	15.904	FY13-61013-001	9,999		9,999	
U.S. Department of Justice/ Pass-Through from WA State Patrol	Domestic Cannabis Eradication/Suppression	16.C130917FED	C130917FED	20,000		20,000	8B

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule.



## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 2013

1	2	3	4	5			6
FEDERAL AGENCY NAME/ PASS-THROUGH AGENCY NAME	FEDERAL PROGRAM NAME	CFDA NUMBER	OTHER AWARD NUMBER	Expenditures			Foot- note Ref.
				From Pass- Through Awards	From Direct Awards	Total	
U.S. Department of Justice	Bulletproof Vest Partnership Program	16.607	2011BOBX11056510 2012BOBX12064250 Subtotal		2,773 <u>4,972</u> 7,745	7,745	
U.S. Department of Justice Pass-Through from WA State Dept. of Commerce	Project Safe Neighborhoods	16.609	F11-34023-022	16,442		16,442	
U.S. Department of Justice	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2010-DJ-BX-0639 Program Income 2011-DJ-BX-2142 Subtotal		57,040 5,557 <u>156,286</u> 218,883	218,883	9 9
U.S. Department of Justice/ Pass-Through from from Spokane County	Edward Byrne Memorial Justice Assistance Grant Program	16.738	M13-31440-016 2012-DJ-BX-0345 Subtotal	15,070 <u>31,267</u> 46,337		46,337	
<b>Total - CFDA 16.738</b>				46,337	218,883	265,220	
U.S. Department of Justice/ Pass-Through from Spokane County Sheriff's Office	Congressionally Recommended Awards	16.753	2008-DD-BX-0574	4,569		4,569	
U.S. Department of Justice	ARRA-Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government	16.804	2009-SB-B9-0693 Program Income Subtotal		124,764 <u>42,092</u> 166,856	166,856	6,9
U.S. Department of Labor/ Pass-Through from WA State Employment Security Department	WIA Adult Program	17.258	6112-1103 6112-7620-17 6112-7620-21 6112-6982-02 6112-6992-02 6112-1303 Program Income Subtotal	612,589 39,520 3,682 23,838 1,365 151,631 <u>67,405</u> 900,030		900,030	9 9 9 9 9
U.S. Department of Labor/ Pass-Through from WA State Employment Security Department	WIA Youth Activities	17.259	6112-7002	571,809		571,809	9
U.S. Department of Labor	WIA Pilots, Demonstrations, and Research Projects	17.261	EA-21593-11-60-A		49,477	49,477	9
U.S. Department of Labor/ Pass-Through from Workforce Training and Education Coordinating Board	ARRA-Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	IAA 774-10	153,220		153,220	6,9
U.S. Department of Labor/ Pass-Through from WA State Employment Security Department	WIA Dislocated Worker Formula Grants	17.278	6112-1202 6112-7202 6112-1203 Subtotal	77,369 197,412 <u>353,867</u> 628,648		628,648	9 9 9

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 2013

1	2	3	4	5			6
FEDERAL AGENCY NAME/ PASS-THROUGH AGENCY NAME	FEDERAL PROGRAM NAME	CFDA NUMBER	OTHER AWARD NUMBER	Expenditures			Foot- note Ref.
				From Pass- Through Awards	From Direct Awards	Total	
U.S. Department of Transportation/Pass-Through from WA State Department of Transportation	Highway Planning and Construction  (continued on next page)	20.205	CM-9932(034)	412,659			
			CM-3850(004)	297,681			
			STPD 3850(006)	5,911			
			CM-0395(084)	647,128			
			CM-0291(022)	6,177			
			STPUL 3756(004)	12,300			
U.S. Department of Transportation/Pass-Through from WA State Department of Transportation	Highway Planning and Construction  (continued from previous page)	20.205	TCSP-1220(024)	41,370			
			STPE-EN10(020)	11,561			
			TCSP-09WA(008)	6,102			
			STPUL-1220(025)	29,800			
			STPUL-1220(026)	13,906			
			STPUL-3792(001)	39,553			
			CM-9932(039)	349,769			
			CM-0002(828)	297,238			
			CM-3948(005)	2,600			
			CM-3794(002)	59,660			
			STPUL-1220(027)	120,680			
			HSIP-000S(333)	21,190			
			HSIP-000S(334)	9,705			
			HSIP-000S(335)	5,801			
			CM-3948(007)	87,259			
			STPUL-3999(010)	796,000			
			HSIP-000S(375)	23,777			
			SRTS-1220(029)	11,732			
			SRTS-1220(028)	24,002			
			STPUL-9932(047)	40,157			
			STPUL-9932(046)	31,691			
			STPUL-3997(002)	20,075			
			CM-9932(043)	<u>2,510</u>			
			Subtotal	3,427,994		3,427,994	
U.S. Department of Transportation	National Motor Carrier Safety	20.218	FM-MHP-0106-13-01-01		61,040	61,040	
U.S. Department of Transportation/Pass- Through from WA State Traffic Safety Commission	State and Community Highway Safety	20.600	US 195 Traffic Safety Law Enforcement Liaison	4,552			
			Subtotal	<u>2,382</u> 6,934		6,934	
U.S. Department of Transportation/Pass- Through from WA State Traffic Safety Commission	Alcohol Impaired Driving Countermeasures Incentive Grants 1	20.601	Impaired Driving Target Zero Teams	1,764			
			Subtotal	<u>4,971</u> 6,735		6,735	
U.S. Department of Transportation/Pass- Through from WA State Traffic Safety Commission	Occupant Protection Incentive Grants	20.602	Child Car Seat Law Seat Belts	4,726			
			Subtotal	<u>1,918</u> 6,644		6,644	
Environmental Protection Agency	Solid Waste Management Assistance Grants	66.808	X1-00J49801-1		2,706	2,706	

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 2013

1	2	3	4	5			6
FEDERAL AGENCY NAME/ PASS-THROUGH AGENCY NAME	FEDERAL PROGRAM NAME	CFDA NUMBER	OTHER AWARD NUMBER	Expenditures			Foot- note Ref.
				From Pass- Through Awards	From Direct Awards	Total	
Environmental Protection Agency/pass-through from WA State Department of Ecology	Capitalization Grants for Clean Water State Revolving Funds	66.458	L1400004	1,032,699			10
			L1400005	287,261			10
			L1400007	33,990			10
			L1200015	889,627			10
			L1200007	95,155			10
			L1400011	<u>1,028,384</u>			10
			Subtotal	3,367,118		3,367,118	
U. S. Department of Homeland Security/ Pass-Through from State of Washington Department of Military	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	N/A	90,492		90,492	7
U. S. Department of Homeland Security	Assistance to Firefighters Grant	97.044	EMW-2011-FO-06717 EMW-2012-FP-01278 Subtotal		185,564 <u>50,256</u> 235,820		
U. S. Department of Homeland Security/ Pass-Through from Spokane County Department of Emergency Management	Homeland Security Grant Program	97.067	E11-119 E11-130 E12-276 E12-276 E12-276 E11-119 E13-139 Subtotal	20,375 4,775 5,335 4,994 6,190 20,957 <u>1,879</u> 64,505			4 4 4 4 4 4 4
U. S. Department of Homeland Security/ Pass-Through from State of Idaho Military Division	Homeland Security Grant Program	97.067	60597621 60597631 60597051 60596791 60597811 60597501 61300031 60597201 60598421 61300761 60598411 60598631 60597401 Subtotal	457 552 452 1,165 3,239 999 11,180 3,425 708 5,206 203 1,055 <u>2,533</u> 31,174			4 4 4 4 4 4 4 4 4 4 4 4 4
Total - CFDA 97.067				95,679		95,679	
Total Federal Awards Expended				10,670,477	10,774,944	21,445,421	

The accompanying notes to the Schedule of Expenditures of federal awards are an integral part of this Schedule.

**CITY OF SPOKANE, WASHINGTON**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 1 - BASIS OF ACCOUNTING**

This schedule is prepared on the same basis of accounting as the City's financial statements. The City uses the modified accrual basis of accounting for all governmental funds. The accrual basis of accounting is used for all proprietary, non-expendable trust and pension trust funds.

**NOTE 2 - PROGRAM COSTS**

The amounts shown as current year expenditures represent only the Federal portion of the program costs. Entire program costs, including the City's portion, may be more than shown.

**NOTE 3 - REVOLVING LOAN - PROGRAM INCOME**

The City of Spokane has a revolving loan program for low-income housing. Under this federal program, repayments to the City are considered program revenues (income) and loans of such funds to eligible recipients are considered expenditures. The amount of loan funds disbursed to program participants for the year was \$3,464,334. These amounts are presented in this schedule. The amount of principal and interest received in loan repayments for the year was \$1,013,223.

Program	Loans Disbursed	Principal/Interest Received
HOME	\$ 1,011,138	\$ 137,793
CDBG	930,195	831,197
Lead Safe Spokane	297,483	12,642
Housing Assistance/ Neighborhood Stabilization	1,225,518	31,591
Total	\$ 3,464,334	\$ 1,013,223

**NOTE 4 - NONCASH AWARDS – EQUIPMENT**

The City received equipment from Spokane City/County Department of Emergency Management and the State of Idaho Military Division that was purchased with federal Homeland Security funds. The amount reported on the SEFA is the value of the property on the date it was received by the City and priced by Homeland Security.

**NOTE 5 - INDIRECT COST RATE**

The City did not use an indirect cost rate in 2013.

**NOTE 6 - AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009**

Expenditures for this program were funded by ARRA

**NOTE 7 - FEMA DISASTER ASSISTANCE**

The City was approved for FEMA disaster assistance for Snowstorm 2008. While all disaster assistance that had been approved and received during 2009, 2010, and 2011 was included on that year's SEFA there are some remaining costs that were approved in 2009 but not received until 2013. Included in the total dollar amount on the SEFA is \$5,088 that was additional funds from FEMA for costs of processing their information requests for the Qualchan project.

**CITY OF SPOKANE, WASHINGTON**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 8 - CFDA NUMBER CLARIFICATION**

(A) CFDA number 14.256 has been archived on the CFDA website. This is an ARRA funded grant that was awarded under this CFDA number and the City is still administering the grant.

(B) The U.S. Department of Justice Domestic Cannabis Eradication/Suppression program does not have a distinct CFDA number. It is presented on the SEFA as 16.C130917FED which is the U.S. Department of Justice federal agency's two digit prefix followed by the contract or grant number.

**NOTE 9 - AMOUNTS AWARDED TO SUBRECIPIENTS**

Included in the total amount expended for the City of Spokane is \$4,958,575 that was passed through to subrecipients that administered their own projects.

CFDA 14.231	347,116
CFDA 14.235	1,250,833
CFDA 14.238	350,906
CFDA 14.256	4,068
CFDA 14.267	1,062,128
CFDA 16.738	89,270
CFDA 16.804	37,848
CFDA 17.258	630,096
CFDA 17.259	493,367
CFDA 17.261	13,733
CFDA 17.275	126,285
CFDA 17.278	552,925
	<u>4,958,575</u>

**NOTE 10 – FEDERAL LOANS**

The City was approved by the State of Washington Department of Ecology to receive loans totaling \$19,322,727. The Department of Ecology computes the ratio that is used to determine Federal funds from State funds for loan proceeds received by the City. While the amount of \$3,367,118 reported on the SEFA is 100% of expenditures, reimbursement for the federal portion of these loans is \$2,805,819 based on 83.33% as determined by the Department of Ecology.

**Schedule for General Fund Accounts  
Balance Sheet  
December 31, 2013**

continued

	General Fund	Code Enforcement	Library	Under Freeway Parking	Parking Facilities	Municipal Arts Projects	Capital Improvement Program
<b>ASSETS</b>							
Cash and cash equivalents	\$ 5,974,778	\$ 87,764	\$ 168,168	\$ 489,805	\$ 390	\$ 5,407	\$ 89,407
Deposits with fiscal agents/trustees	69,833	-	-	-	-	-	-
Equity in pooled investments	13,582,906	-	404,846	-	-	-	1,466
Taxes receivable	11,969,697	366,011	-	-	-	-	-
Accounts receivable	2,659,701	6,034	126,023	17,094	-	-	-
Interest receivable	196,815	-	140	-	-	-	-
Due from other funds	5,240,385	14,165	699	-	-	-	-
Interfund loan receivable	157,875	-	4,699	-	-	-	13
Due from other governments	228,413	-	-	-	-	-	-
Advances to other funds	782,222	-	23,283	-	-	-	62
Inventories	-	-	-	-	-	-	-
Notes/contract receivable (non current)	-	-	-	-	-	-	-
<b>Total Assets</b>	<b>40,862,625</b>	<b>473,974</b>	<b>727,858</b>	<b>506,899</b>	<b>390</b>	<b>5,407</b>	<b>90,948</b>
<b>LIABILITIES AND FUND BALANCE</b>							
<b>Liabilities:</b>							
Accounts/vouchers payable	793,958	25,765	94,897	6,965	-	-	-
Due to other funds	750,104	223,230	2,411	-	-	-	7,599
Due to other governments	236	-	-	-	-	-	-
Interfund loan payable	-	-	-	-	-	-	-
Other accrued liabilities	2,965,978	23,367	164,304	-	-	-	-
Other current liabilities	840,444	-	219	-	-	-	20,000
Deferred inflow of resources	1,827,120	-	-	-	-	-	-
<b>Total Liabilities</b>	<b>7,177,840</b>	<b>272,362</b>	<b>261,831</b>	<b>6,965</b>	<b>-</b>	<b>-</b>	<b>27,599</b>
<b>FUND BALANCE:</b>							
Nonspendable	940,096	-	27,982	-	-	-	75
Restricted for:							
Inventories	-	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-	-
Grants	-	-	-	-	-	-	-
Committed	14,515,773	-	-	486,922	390	-	-
Assigned	1,972,615	166,946	437,821	13,016	-	5,407	63,276
Unassigned	16,291,185	-	-	-	-	-	-
<b>Total Fund Balance</b>	<b>\$ 33,719,669</b>	<b>\$ 166,946</b>	<b>\$ 465,803</b>	<b>\$ 499,938</b>	<b>\$ 390</b>	<b>\$ 5,407</b>	<b>\$ 63,351</b>

See accompanying notes the financial statements.

**Schedule for General Fund Accounts  
Balance Sheet  
December 31, 2013**

concluded

	Hope Acquisition	Housing Trust Grant	JTPA Private Industry Council	Cumulative Reserve	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 29,958	\$ 1,015	\$ 10,210	\$ 22,569	<b>6,879,471</b>
Deposits with fiscal agents/trustees	-	-	-	-	<b>69,833</b>
Equity in pooled investments	193,158	180,880	70	-	<b>14,363,326</b>
Taxes receivable	-	-	-	-	<b>12,335,708</b>
Accounts receivable	-	-	-	-	<b>2,808,852</b>
Interest receivable	153	150	-	-	<b>197,258</b>
Due from other funds	-	-	945	-	<b>5,256,194</b>
Interfund loan receivable	2,242	2,102	-	-	<b>166,931</b>
Due from other governments	-	-	-	-	<b>228,413</b>
Advances to other funds	11,107	10,416	-	-	<b>827,090</b>
Inventories	-	-	-	-	<b>-</b>
Notes/contract receivable (non current)	210,927	22,850	-	-	<b>233,777</b>
<b>Total Assets</b>	<b>447,545</b>	<b>217,413</b>	<b>11,225</b>	<b>22,569</b>	<b>43,366,853</b>
<b>LIABILITIES AND FUND BALANCE</b>					
<b>Liabilities:</b>					
Accounts/vouchers payable	-	-	-	-	<b>921,585</b>
Due to other funds	2,255	-	-	-	<b>985,599</b>
Due to other governments	-	-	-	-	<b>236</b>
Interfund loan payable	-	-	-	-	<b>-</b>
Other accrued liabilities	-	-	-	-	<b>3,153,649</b>
Other current liabilities	-	-	-	-	<b>860,663</b>
Deferred inflow of resources	-	-	-	-	<b>1,827,120</b>
<b>Total Liabilities</b>	<b>2,255</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,748,852</b>
<b>FUND BALANCE:</b>					
Nonspendable	13,349	12,518	-	-	<b>994,020</b>
Restricted for:					
Inventories	-	-	-	-	<b>-</b>
Capital projects	-	-	-	-	<b>-</b>
Grants	431,941	204,895	-	-	<b>636,836</b>
Committed	-	-	11,225	-	<b>15,014,310</b>
Assigned	-	-	-	22,569	<b>2,681,650</b>
Unassigned	-	-	-	-	<b>16,291,185</b>
<b>Total Fund Balance</b>	<b>\$ 445,290</b>	<b>\$ 217,413</b>	<b>\$ 11,225</b>	<b>\$ 22,569</b>	<b>35,618,001</b>

See accompanying notes the financial statements.

**Schedule for General Fund Accounts  
Statement of Revenues, Expenditures  
and Changes in Fund Balance  
December 31, 2013**

continued

	General Fund	Code Enforcement	Library	Under Freeway Parking	Parking Facilities	Municipal Art Projects	Capital Improvement Program
<b>REVENUES</b>							
Taxes	\$ 130,264,161	\$ 5,314	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	6,424,954	-	-	-	-	-	-
Intergovernmental	3,267,477	-	-	-	-	-	-
Charges for services	13,730,690	827,811	24,890	-	-	-	-
Fines and forfeitures	2,697,360	(11,113)	176,109	-	-	-	-
Miscellaneous	622,111	210,997	76,139	149,722	-	-	-
Interest income	1,876,867	-	832	-	-	-	(111)
Net increase (decrease) in fair value of investments	(623,063)	-	(3,829)	-	-	-	-
<b>Total Revenues</b>	<b>158,260,557</b>	<b>1,033,009</b>	<b>274,141</b>	<b>149,722</b>	<b>-</b>	<b>-</b>	<b>(111)</b>
<b>EXPENDITURES</b>							
<b>Current:</b>							
General government	21,852,515	-	-	-	-	-	93
Public safety	88,478,694	1,310,653	-	-	-	-	-
Utilities environment	-	-	-	-	-	-	-
Transportation	7,213,097	-	-	111,107	-	-	-
Economic environment	5,161,620	-	-	521	-	-	-
Mental and physical health	118,064	-	-	-	-	-	-
Culture and recreation	502,697	-	7,775,332	-	-	-	-
Capital outlays	527,788	-	887,958	62,910	-	-	728,156
<b>Debt service:</b>							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
<b>Total Expenditures</b>	<b>123,854,475</b>	<b>1,310,653</b>	<b>8,663,290</b>	<b>174,538</b>	<b>-</b>	<b>-</b>	<b>728,249</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>34,406,082</b>	<b>(277,644)</b>	<b>(8,389,149)</b>	<b>(24,816)</b>	<b>-</b>	<b>-</b>	<b>(728,360)</b>
<b>OTHER FINANCING SOURCES (USES)</b>							
Sale of capital assets	74,604	-	-	-	-	-	-
Transfers in	400,000	270,315	7,923,397	-	-	-	750,000
Transfers out	(36,714,444)	-	(11,590)	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(36,239,840)</b>	<b>270,315</b>	<b>7,911,807</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>750,000</b>
<b>Change in Fund Balance</b>	<b>(1,833,758)</b>	<b>(7,329)</b>	<b>(477,342)</b>	<b>(24,816)</b>	<b>-</b>	<b>-</b>	<b>21,640</b>
<b>Other Changes in Fund Balance</b>							
Prior Period Adjustment	(544,521)	-	-	-	-	-	-
<b>Fund Balance - beginning</b>	<b>36,097,948</b>	<b>174,275</b>	<b>943,145</b>	<b>524,754</b>	<b>390</b>	<b>5,407</b>	<b>41,711</b>
<b>Fund Balance - ending</b>	<b>\$ 33,719,669</b>	<b>\$ 166,946</b>	<b>\$ 465,803</b>	<b>\$ 499,938</b>	<b>\$ 390</b>	<b>\$ 5,407</b>	<b>\$ 63,351</b>

See accompanying notes the financial statements.



**Schedule for General Fund Accounts  
Statement of Revenues, Expenditures  
and Changes in Fund Balance  
December 31, 2013**

Concluded

	Hope Acquisition	Housing Trust Grant	JTPA Private Industry Council	Cumulative Reserve	Eliminations	Total
<b>REVENUES</b>						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 130,269,475
Licenses and permits	-	-	-	-	-	6,424,954
Intergovernmental	-	-	-	-	-	3,267,477
Charges for services	-	-	-	-	-	14,583,391
Fines and forfeitures	-	-	-	-	-	2,862,356
Miscellaneous	-	-	-	-	-	1,058,969
Interest income	2,326	1,668	20	-	-	1,881,602
Net increase (decrease) in fair value of investments	(1,787)	(1,787)	-	-	-	(630,466)
<b>Total Revenues</b>	<b>539</b>	<b>(119)</b>	<b>20</b>	<b>-</b>	<b>-</b>	<b>159,717,758</b>
<b>EXPENDITURES</b>						
<b>Current:</b>						
General government	-	-	-	-	-	21,852,608
Public safety	-	-	-	-	-	89,789,347
Utilities environment	-	-	-	-	-	-
Transportation	-	-	-	-	-	7,324,204
Economic environment	16,542	-	-	-	-	5,178,683
Mental and physical health	-	-	-	-	-	118,064
Culture and recreation	-	-	-	-	-	8,278,029
Capital outlays	9,848	-	-	-	-	2,216,660
<b>Debt service:</b>						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
<b>Total Expenditures</b>	<b>26,390</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>134,757,595</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(25,851)</b>	<b>(119)</b>	<b>20</b>	<b>-</b>	<b>-</b>	<b>24,960,163</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Sale of capital assets	-	-	-	-	-	74,604
Transfers in	-	-	946	-	(8,943,712)	400,946
Transfers out	-	-	(1,016)	-	8,943,712	(27,783,338)
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>(70)</b>	<b>-</b>	<b>-</b>	<b>(27,307,788)</b>
<b>Change in Fund Balance</b>	<b>(25,851)</b>	<b>(119)</b>	<b>(50)</b>	<b>-</b>	<b>-</b>	<b>(2,347,625)</b>
<b>Other Changes in Fund Balance</b>						
Prior Period Adjustment	-	-	-	-	-	(544,521)
<b>Fund Balance - beginning</b>	<b>471,141</b>	<b>217,532</b>	<b>11,275</b>	<b>22,569</b>	<b>-</b>	<b>38,510,147</b>
<b>Fund Balance - ending</b>	<b>\$ 445,290</b>	<b>\$ 217,413</b>	<b>\$ 11,225</b>	<b>\$ 22,569</b>	<b>\$ -</b>	<b>\$ 35,618,001</b>

**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended December 31, 2013**

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
<b>RESOURCES</b>				
Taxes	\$ 128,881,000	\$ 128,881,000	\$ 130,264,161	\$ 1,383,161
Licenses and permits	6,479,000	6,479,000	6,424,954	(54,046)
Intergovernmental	5,242,428	5,322,428	3,267,477	(2,054,951)
Charges for services	14,765,516	14,830,446	13,730,690	(1,099,756)
Fines and forfeitures	2,969,500	2,969,500	2,697,360	(272,140)
Miscellaneous	2,528,000	2,528,000	1,875,915	(652,085)
<b>Total resources</b>	<b>160,865,444</b>	<b>161,010,374</b>	<b>158,260,557</b>	<b>(2,749,817)</b>
<b>EXPENDITURES</b>				
General government	21,989,439	22,569,311	21,852,515	716,796
Public safety	87,818,863	89,187,928	88,478,694	709,234
Utilities environment	-	-	-	-
Transportation	7,765,649	8,120,758	7,213,097	907,661
Economic environment	6,086,151	6,646,685	5,161,620	1,485,065
Mental and physical health	110,080	120,080	118,064	2,016
Culture and recreation	557,553	566,900	502,697	64,203
Capital outlay	190,000	620,704	527,788	92,916
Debt service:			-	-
Interest	10,000	10,000	-	10,000
<b>Total expenditures</b>	<b>124,527,735</b>	<b>127,842,366</b>	<b>123,854,475</b>	<b>3,987,891</b>
<b>Excess resources over expenditures</b>	<b>36,337,709</b>	<b>33,168,008</b>	<b>34,406,082</b>	<b>1,238,074</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	-	-	74,604	74,604
Collection of revolving loans	-	-	-	-
Transfers in	400,000	400,000	400,000	-
Transfers out	(36,900,215)	(36,854,215)	(36,714,444)	139,771
<b>Total other financing sources (uses)</b>	<b>(36,500,215)</b>	<b>(36,454,215)</b>	<b>(36,239,840)</b>	<b>214,375</b>
<b>Excess (deficiency) of revenues and other sources over (under) expenditures and other uses</b>	<b>(162,506)</b>	<b>(3,286,207)</b>	<b>(1,833,758)</b>	<b>1,452,449</b>
<b>Other changes in fund balance</b>				
Prior period adjustment	(544,521)	(544,521)	(544,521)	-
<b>Fund Balance - beginning</b>	<b>36,097,948</b>	<b>36,097,948</b>	<b>36,097,948</b>	<b>-</b>
<b>Fund Balance - ending</b>	<b>\$ 35,390,921</b>	<b>\$ 32,267,220</b>	<b>\$ 33,719,669</b>	<b>\$ 1,452,449</b>

**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**Code Enforcement Fund**  
**For the Fiscal Year Ended December 31, 2013**

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
<b>RESOURCES</b>				
Taxes	\$ -	\$ -	\$ 5,314	\$ 5,314
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	1,034,020	1,184,020	827,811	(356,209)
Fines and forfeitures	-	-	(11,113)	(11,113)
Miscellaneous	70,500	70,500	210,997	140,497
<b>Total resources</b>	1,104,520	1,254,520	1,033,009	(221,511)
<b>EXPENDITURES</b>				
General government	-	-	-	-
Public safety	1,421,339	1,598,080	1,310,653	287,427
Utilities environment	-	-	-	-
Transportation	-	-	-	-
Economic environment	-	-	-	-
Mental and physical health	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service:	-	-	-	-
Interest	-	-	-	-
<b>Total expenditures</b>	1,421,339	1,598,080	1,310,653	287,427
<b>Excess resources over expenditures</b>	(316,819)	(343,560)	(277,644)	65,916
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	-	-	-	-
Collection of revolving loans	-	-	-	-
Transfers in	304,553	304,553	270,315	(34,238)
Transfers out	-	-	-	-
<b>Total other financing sources (uses)</b>	304,553	304,553	270,315	(34,238)
<b>Excess (deficiency) of revenues and other sources over (under) expenditures and other uses</b>	(12,266)	(39,007)	(7,329)	31,678
<b>Other changes in fund balance</b>				
Prior period adjustment	-	-	-	-
<b>Fund Balance - beginning</b>	174,275	174,275	174,275	-
<b>Fund Balance - ending</b>	\$ 162,009	\$ 135,268	\$ 166,946	\$ 31,678

**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**Library Fund**  
**For the Fiscal Year Ended December 31, 2013**

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
<b>RESOURCES</b>				
Taxes	\$ 5	\$ 5	\$ -	\$ (5)
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	30,000	30,000	24,890	(5,110)
Fines and forfeitures	235,000	235,000	176,109	(58,891)
Miscellaneous	62,050	62,050	73,142	11,092
<b>Total resources</b>	327,055	327,055	274,141	(52,914)
<b>EXPENDITURES</b>				
General government	-	-	-	-
Public safety	-	-	-	-
Utilities environment	-	-	-	-
Transportation	-	-	-	-
Economic environment	-	-	-	-
Mental and physical health	-	-	-	-
Culture and recreation	7,652,723	7,852,723	7,775,332	77,391
Capital outlay	925,541	925,541	887,958	37,583
Debt service:	-	-	-	-
Interest	-	-	-	-
<b>Total expenditures</b>	8,578,264	8,778,264	8,663,290	114,974
<b>Excess resources over expenditures</b>	(8,251,209)	(8,451,209)	(8,389,149)	62,060
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	-	-	-	-
Collection of revolving loans	-	-	-	-
Transfers in	7,923,397	7,923,397	7,923,397	-
Transfers out	(11,590)	(11,590)	(11,590)	-
<b>Total other financing sources (uses)</b>	7,911,807	7,911,807	7,911,807	-
<b>Excess (deficiency) of revenues and other sources over (under) expenditures and other uses</b>	(339,402)	(539,402)	(477,342)	62,060
<b>Other changes in fund balance</b>				
Prior period adjustment	-	-	-	-
<b>Fund Balance - beginning</b>	943,145	943,145	943,145	-
<b>Fund Balance - ending</b>	\$ 603,743	\$ 403,743	\$ 465,803	\$ 62,060

**Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual  
Under Freeway Parking Fund  
For the Fiscal Year Ended December 31, 2013**

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
<b>RESOURCES</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	123,000	123,000	149,722	26,722
<b>Total resources</b>	123,000	123,000	149,722	26,722
<b>EXPENDITURES</b>				
General government	-	-	-	-
Public safety	-	-	-	-
Utilities environment	-	-	-	-
Transportation	127,170	185,441	111,107	74,334
Economic environment	-	-	521	(521)
Mental and physical health	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	100,000	162,911	62,910	100,001
Debt service:	-	-	-	-
Interest	-	-	-	-
<b>Total expenditures</b>	227,170	348,352	174,538	173,814
<b>Excess resources over expenditures</b>	(104,170)	(225,352)	(24,816)	200,536
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	-	-	-	-
Collection of revolving loans	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<b>Total other financing sources (uses)</b>	-	-	-	-
<b>Excess (deficiency) of revenues and other sources over (under) expenditures and other uses</b>	(104,170)	(225,352)	(24,816)	200,536
<b>Other changes in fund balance</b>				
Prior period adjustment	-	-	-	-
<b>Fund Balance - beginning</b>	524,754	524,754	524,754	-
<b>Fund Balance - ending</b>	\$ 420,584	\$ 299,402	\$ 499,938	\$ 200,536

**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**Parking Facilities Fund**  
**For the Fiscal Year Ended December 31, 2013**

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
<b>RESOURCES</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	-	-
<b>Total resources</b>	-	-	-	-
<b>EXPENDITURES</b>				
General government	-	-	-	-
Public safety	-	-	-	-
Utilities environment	-	-	-	-
Transportation	-	-	-	-
Economic environment	-	-	-	-
Mental and physical health	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service:	-	-	-	-
Interest	-	-	-	-
<b>Total expenditures</b>	-	-	-	-
<b>Excess resources over expenditures</b>	-	-	-	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	-	-	-	-
Collection of revolving loans	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<b>Total other financing sources (uses)</b>	-	-	-	-
<b>Excess (deficiency) of revenues and other sources over (under) expenditures and other uses</b>	-	-	-	-
<b>Other changes in fund balance</b>				
Prior period adjustment	-	-	-	-
<b>Fund Balance - beginning</b>	390	390	390	-
<b>Fund Balance - ending</b>	\$ 390	\$ 390	\$ 390	\$ -

**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**Municipal Art Project Fund**  
**For the Fiscal Year Ended December 31, 2013**

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
<b>RESOURCES</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	-	-
<b>Total resources</b>	-	-	-	-
<b>EXPENDITURES</b>				
General government	-	-	-	-
Public safety	-	-	-	-
Utilities environment	-	-	-	-
Transportation	-	-	-	-
Economic environment	-	-	-	-
Mental and physical health	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service:	-	-	-	-
Interest	-	-	-	-
<b>Total expenditures</b>	-	-	-	-
<b>Excess resources over expenditures</b>	-	-	-	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	-	-	-	-
Collection of revolving loans	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<b>Total other financing sources (uses)</b>	-	-	-	-
<b>Excess (deficiency) of revenues and other sources over (under) expenditures and other uses</b>	-	-	-	-
<b>Other changes in fund balance</b>				
Prior period adjustment	-	-	-	-
<b>Fund Balance - beginning</b>	5,407	5,407	5,407	-
<b>Fund Balance - ending</b>	\$ 5,407	\$ 5,407	\$ 5,407	\$ -

**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**Capital Improvement Program Fund**  
**For the Fiscal Year Ended December 31, 2013**

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
<b>RESOURCES</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	350,000	-	(111)	(111)
<b>Total resources</b>	350,000	-	(111)	(111)
<b>EXPENDITURES</b>				
General government	-	-	93	(93)
Public safety	-	-	-	-
Utilities environment	-	-	-	-
Transportation	-	-	-	-
Economic environment	-	-	-	-
Mental and physical health	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	750,000	810,910	728,156	82,754
Debt service:	-	-	-	-
Interest	-	-	-	-
<b>Total expenditures</b>	750,000	810,910	728,249	82,661
<b>Excess resources over expenditures</b>	(400,000)	(810,910)	(728,360)	82,550
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	-	-	-	-
Collection of revolving loans	-	-	-	-
Transfers in	400,000	750,000	750,000	-
Transfers out	-	-	-	-
<b>Total other financing sources (uses)</b>	400,000	750,000	750,000	-
<b>Excess (deficiency) of revenues and other sources over (under) expenditures and other uses</b>	-	(60,910)	21,640	82,550
<b>Other changes in fund balance</b>				
Prior period adjustment	-	-	-	-
<b>Fund Balance - beginning</b>	41,711	41,711	41,711	-
<b>Fund Balance - ending</b>	\$ 41,711	\$ (19,199)	\$ 63,351	\$ 82,550



**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**Hope Acquisition Fund**  
**For the Fiscal Year Ended December 31, 2013**

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
<b>RESOURCES</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	539	539
<b>Total resources</b>	-	-	539	539
<b>EXPENDITURES</b>				
General government	-	-	-	-
Public safety	-	-	-	-
Utilities environment	-	-	-	-
Transportation	-	-	-	-
Economic environment	20,000	20,000	16,542	3,458
Mental and physical health	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	100,000	100,000	9,848	90,152
Debt service:	-	-	-	-
Interest	-	-	-	-
<b>Total expenditures</b>	120,000	120,000	26,390	93,610
<b>Excess resources over expenditures</b>	(120,000)	(120,000)	(25,851)	94,149
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	-	-	-	-
Collection of revolving loans	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<b>Total other financing sources (uses)</b>	-	-	-	-
<b>Excess (deficiency) of revenues and other sources over (under) expenditures and other uses</b>	(120,000)	(120,000)	(25,851)	94,149
<b>Other changes in fund balance</b>				
Prior period adjustment	-	-	-	-
<b>Fund Balance - beginning</b>	471,141	471,141	471,141	-
<b>Fund Balance - ending</b>	\$ 351,141	\$ 351,141	\$ 445,290	\$ 94,149

**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**Housing Trust Grant Fund**  
**For the Fiscal Year Ended December 31, 2013**

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
<b>RESOURCES</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	(119)	(119)
<b>Total resources</b>	-	-	(119)	(119)
<b>EXPENDITURES</b>				
General government	-	-	-	-
Public safety	-	-	-	-
Utilities environment	-	-	-	-
Transportation	-	-	-	-
Economic environment	5,000	5,000	-	5,000
Mental and physical health	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service:	-	-	-	-
Interest	-	-	-	-
<b>Total expenditures</b>	5,000	5,000	-	5,000
<b>Excess resources over expenditures</b>	(5,000)	(5,000)	(119)	4,881
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	-	-	-	-
Collection of revolving loans	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<b>Total other financing sources (uses)</b>	-	-	-	-
<b>Excess (deficiency) of revenues and other sources over (under) expenditures and other uses</b>	(5,000)	(5,000)	(119)	4,881
<b>Other changes in fund balance</b>				
Prior period adjustment	-	-	-	-
<b>Fund Balance - beginning</b>	217,532	217,532	217,532	-
<b>Fund Balance - ending</b>	\$ 212,532	\$ 212,532	\$ 217,413	\$ 4,881

**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**JTPA Private Industry Council Fund**  
**For the Fiscal Year Ended December 31, 2013**

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
<b>RESOURCES</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	20	20
<b>Total resources</b>	-	-	20	20
<b>EXPENDITURES</b>				
General government	-	-	-	-
Public safety	-	-	-	-
Utilities environment	-	-	-	-
Transportation	-	-	-	-
Economic environment	-	-	-	-
Mental and physical health	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service:	-	-	-	-
Interest	-	-	-	-
<b>Total expenditures</b>	-	-	-	-
<b>Excess resources over expenditures</b>	-	-	20	20
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	-	-	-	-
Collection of revolving loans	-	-	-	-
Transfers in	-	-	946	946
Transfers out	-	-	(1,016)	(1,016)
<b>Total other financing sources (uses)</b>	-	-	(70)	(70)
<b>Excess (deficiency) of revenues and other sources over (under) expenditures and other uses</b>	-	-	(50)	(50)
<b>Other changes in fund balance</b>				
Prior period adjustment	-	-	-	-
<b>Fund Balance - beginning</b>	11,275	11,275	11,275	-
<b>Fund Balance - ending</b>	\$ 11,275	\$ 11,275	\$ 11,225	\$ (50)

**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**Cumulative Reserve Fund**  
**For the Fiscal Year Ended December 31, 2013**

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
<b>RESOURCES</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	-	-
<b>Total resources</b>	-	-	-	-
<b>EXPENDITURES</b>				
General government	-	-	-	-
Public safety	-	-	-	-
Utilities environment	-	-	-	-
Transportation	-	-	-	-
Economic environment	-	-	-	-
Mental and physical health	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service:	-	-	-	-
Interest	-	-	-	-
<b>Total expenditures</b>	-	-	-	-
<b>Excess resources over expenditures</b>	-	-	-	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	-	-	-	-
Collection of revolving loans	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<b>Total other financing sources (uses)</b>	-	-	-	-
<b>Excess (deficiency) of revenues and other sources over (under) expenditures and other uses</b>	-	-	-	-
<b>Other changes in fund balance</b>				
Prior period adjustment	-	-	-	-
<b>Fund Balance - beginning</b>	22,569	22,569	22,569	-
<b>Fund Balance - ending</b>	\$ 22,569	\$ 22,569	\$ 22,569	\$ -

# Corrective Action Plan for Findings Reported Under OMB Circular A-133

## City of Spokane Spokane County January 1, 2013 through December 31, 2013

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the City of Spokane. The State Auditor's Office has reviewed the information as presented by the City.

<b>Finding ref number:</b> 1	<b>Finding caption:</b> The City did not have adequate internal controls to comply with federal grant requirements for its Community Development Block Grants.
<b>Name, address, and telephone of auditee contact person:</b> Jennifer Stapleton Director of Grants and Financial Management 808 W. Spokane Falls Blvd. Spokane, WA 99201 (509) 625-6091 jstapleton@spokanecity.org	
<b>Corrective action the auditee plans to take in response to the finding:</b> <u>Program Income</u> <i>The City's Accounting staff has improved its procedures in 2014 to include posting program income into the U.S. Department of Housing and Urban Development's (HUD) Integrated Disbursement Information System (IDIS) daily. This is verified by an Accounting supervisor. Further controls are being implemented to verify this corrective action is fully implemented and include the Accounting Director reviewing all entitlement draws prior to submission for a minimum period of 3 to 6 months to verify that all eligible program income is used prior to drawing down grant funds.</i>  <i>Additionally, the City's Grants Management Department is leading a comprehensive effort with the City's accounting and program staff to review all active grant budgets, fund and account set up and documenting this process in policy and procedures to ensure that we are proactively establishing financial and reporting systems to meet tracking and reporting requirements.</i>  <u>Cash Management</u> <i>The City is in the process of preparing a remittance to HUD of the \$401.50 in interest earnings it improperly retained at year-end and has implemented procedures to return 100 percent of interest earned on a quarterly basis. This procedure will be further reviewed and fully documented in writing as part of the City's comprehensive grants review. Additionally, the City's Accounting Director will verify the return of interest earnings and ensure reconciliation of any tracking forms used to the general ledger on a quarterly basis for the next 3 to 6 months</i>	

*to ensure new procedures implemented are working effectively.*

**Subrecipient Monitoring**

*The City's new Grants Management Policy and Procedures contains specific policy and procedures relative to subrecipient monitoring. The City's Grants Management Department is now responsible for reviewing subrecipient audit reports for compliance and verifying submission to the Federal Audit Clearinghouse, as well as determining whether corrective action plans are required. This Department is also leading an effort to develop a specific subrecipient monitoring program for the grants awarded to the Community Housing and Human Services (CHHS) Department. This includes the development of a subrecipient tracking system to be implemented by CHHS, which includes tracking of fiscal year ends, and audit requirements for subrecipient agencies so that the Grants Management Department can also assure that it is receiving audit reports timely and as required in its subrecipient contracts.*

**Anticipated date to complete the corrective action:** 12/31/2014

**Finding ref number:**

2

**Finding caption:**

The City did not have adequate internal controls to ensure compliance with the federal grant requirements for its Supportive Housing Program.

**Name, address, and telephone of auditee contact person:**

Jennifer Stapleton  
Director of Grants and Financial Management  
808 W. Spokane Falls Blvd.  
Spokane, WA 99201  
(509) 625-6091  
jstapleton@spokanecity.org

**Corrective action the auditee plans to take in response to the finding:**

**Matching**

*The City's Grants Management Department has provided technical assistance and training to the Accounting and Community Housing and Human Services (CHHS) Departments regarding reporting requirements during the first two quarters of 2014. The new Grants Management Policy and Procedures effective March 31, 2014, also include enhanced internal controls for the review of all grant reports. Financial reports are prepared by the Accounting Department, supported with back up documentation and reviewed by program staff in the CHHS Department prior to submission. Currently, the Grants Management Department is leading a comprehensive effort which includes accounting and program staff to review all active grant budgets, fund and account set up and documenting this process in policy and procedures to ensure that we are proactively establishing financial and reporting systems to meet matching requirements.*

*The Supporting Housing Program has been consolidated by HUD into the Continuum of Care Program with somewhat different matching requirements. Instead of requiring match by line item, this program requires a 25% match on the total award. As new contracts are being issued, the City's subrecipient agencies are meeting the full match requirement and this is included as a clear contractual requirement in our new subrecipient contracts under this program and it is being monitored and tracked via new billing forms created for the program, which must be supported by appropriate backup documentation to demonstrate allow ability*

and allocability to the grant program.

**Reporting**

*The City's new Grants Management Policy and Procedures improves internal controls for all reporting on grants by requiring a documented doer and reviewer prior to submission of any reports. Further, deadlines for reports are managed and tracked in the City's new central award management system. The Annual Performance Reports required under this grant program require consolidating data from the Homeless Management Information System staff and program staff in CHHS as well as Accounting staff. Procedures are being developed and will be documented to ensure that all components of these reports are prepared and reviewed for accuracy.*

**Subrecipient Monitoring**

*The City's new Grants Management Policy and Procedures contains specific policy and procedures relative to subrecipient monitoring. The City's Grants Management Department is now responsible for reviewing subrecipient audit reports for compliance and verifying submission to the Federal Audit Clearinghouse, as well as determining whether corrective action plans are required. This Department is also leading an effort to develop a specific subrecipient monitoring program for the grants awarded to the CHHS Department. This includes the development of a subrecipient tracking system to be implemented by CHHS which includes tracking of fiscal year ends, and audit requirements for subrecipient agencies so that the Grants Management Department can also assure that it is receiving audit reports timely and as required in its subrecipient contracts.*

**Anticipated date to complete the corrective action:** 12/31/2014

**Finding ref number:**

3

**Finding caption:**

The City did not have adequate internal controls to comply with federal grant requirements for its Home Investment Partnership Program Grant.

**Name, address, and telephone of auditee contact person:**

Jennifer Stapleton  
Director of Grants and Financial Management  
808 W. Spokane Falls Blvd.  
Spokane, WA 99201  
(509) 625-6091  
jstapleton@spokanecity.org

**Corrective action the auditee plans to take in response to the finding:**

**Program Income**

*The City's Accounting staff has improved its procedures in 2014 to include posting program income into the HUD Integrated Disbursement and Information System (IDIS) daily. This is verified by an Accounting supervisor. Further controls are being implemented to verify this corrective action is fully implemented and include the Accounting Director reviewing all entitlement draws prior to submission for a minimum period of 3 to 6 months to verify that all eligible program income is used prior to drawing down grant funds.*

*Additionally, the City's Grants Management Department is leading a comprehensive effort with the City's accounting and program staff to review all active grant budgets, fund and account*

*set up and documenting this process in policy and procedures to ensure that we are proactively establishing financial and reporting systems to meet tracking and reporting requirements.*

Cash Management

*The City is in the process of preparing a remittance to HUD of the \$1,679.46 in interest earnings it retained at year-end and has implemented procedures to return 100% of interest earned on a quarterly basis. This procedure will be further reviewed and fully documented in writing as part of the City's comprehensive grants review. Additionally, the City's Accounting Director will verify the return of interest earnings and ensure reconciliation of any tracking forms used to the general ledger on a quarterly basis for the next 3 to 6 months to ensure new procedures implemented are working effectively.*

**Anticipated date to complete the corrective action:** 12/31/2014

<b>Finding ref number:</b> 4	<b>Finding caption:</b> The City did not have adequate internal controls to ensure compliance with federal grant requirements for its Continuum of Care Program.
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**Name, address, and telephone of auditee contact person:**

Jennifer Stapleton  
Director of Grants and Financial Management  
808 W. Spokane Falls Blvd.  
Spokane, WA 99201  
(509) 625-6091  
jstapleton@spokanecity.org

**Corrective action the auditee plans to take in response to the finding:**

Subrecipient Monitoring

The City of Spokane adopted a comprehensive Grants Management and Financial Assistance Policy and Procedures effective March 31, 2014, which provides for increased controls for sub-award contracting and monitoring. Program staff in the CHHS Department prepares subrecipient contracts using templates developed by the Grants Management Department and approved by the Legal Department. Once prepared, these contracts are sent back to the Grants Management Department for review and approval. This review includes verification of the correct CFDA number, award number, award amounts and pass through requirements.

The 2012 Continuum of Care subawards referenced in the audit report were issued prior to the adoption of these new controls, and a new CHHS program manager did identify the CFDA error and notified the Grants Management Department in June, 2014. Letters were issued to all of the subrecipient agencies on July 15, 2014 informing them of the error and providing them with the correct CFDA number as advised by the Grants Management Department.

Reporting

The City Grants Management & Financial Assistance Policy and Procedures, effective March 31, 2014, contains a formal policy and procedure addressing FFATA reporting. Program staff in the CHHS Department involved with processing subrecipient contracts will submit FFATA reports into the FSRS system on a weekly basis following indexing by the City Clerk and upload copies of these reports into the City's central award management system. The award managers will verify accurate and timely submission of FFATA reports on a monthly basis in the award management system.



The Grants Management Department will provide technical assistance to CHHS program staff to modify the previously submitted FFATA reports to ensure that they are reported under the correct grant number.

**Anticipated date to complete the corrective action:** 10/31/2014

**Finding ref number:**  
5

**Finding caption:**

The City did not have adequate internal controls to ensure compliance with federal grant requirements for its Lead Hazard Reduction Grant.

**Name, address, and telephone of auditee contact person:**

Jennifer Stapleton  
Director of Grants and Financial Management  
808 W. Spokane Falls Blvd.  
Spokane, WA 99201  
(509) 625-6091  
jstapleton@spokanecity.org

**Corrective action the auditee plans to take in response to the finding:**

Eligibility

*The Program Manager in the City's Community, Housing & Human Services (CHHS) Department is now reviewing all eligibility determinations made by the property management company and makes a final approval determination. As an additional control to ensure the implementation of the corrective action, the CHHS Department Director will be performing a weekly review of the implementation of this procedure to ensure new internal control procedures are being followed. This review will be documented.*

Matching

*Staff in the City's Grants Management and Financial Assistance (GMFA) Department provided intensive technical assistance and review of matching contributions beginning in January, 2014. As stated in the finding, this review included a verification of matching funds previously reported. The Q4 2014 Federal Financial Report corrected the previously over-reported match contribution. Following submission of this report, staff from the GMFA met with the HUD Technical Assistance contact for this award and provided the revised matching contribution numbers and all supporting documentation. Subsequent procedures implemented to ensure continued compliance include the CHHS Program Manager preparing the matching contribution report on a quarterly basis and ensuring all matches to be reported is fully documented. This is reviewed by GMFA Department staff prior to submission of quarterly financial reports to verify allowability and allocability to the grant. This process and all records are maintained in the City's new electronic award management system.*

**Anticipated date to complete the corrective action:** 09/08/2014

<b>Finding ref number:</b> 6	<b>Finding caption:</b> The City did not have adequate internal controls to comply with federal grant requirements for its Assistance to Firefighters Grant.
<b>Name, address, and telephone of auditee contact person:</b> Jennifer Stapleton Director of Grants and Financial Management 808 W. Spokane Falls Blvd. Spokane, WA 99201 (509) 625-6091 jstapleton@spokanecity.org	
<b>Corrective action the auditee plans to take in response to the finding:</b> <u>Procurement</u> <i>The City of Spokane adopted a comprehensive Grants Management and Financial Assistance Policy and Procedures effective March 31, 2014, which provides for increased controls for procurement under federal grants. New procedures require that any purchases made under a federal grant which specify a brand name, or other specification requirements that limit competition, or are declared sole source, must be reviewed and approved by the City's Department of Grants Management and Financial Assistance prior to the contract or purchase being completed. The Fire Department is aware of this new requirement and will ensure that the policy and procedure is adhered to.</i>  <u>Suspension/Debarment</u> <i>Award managers at the City are responsible for performing suspension/debarment checks for all grant purchases and documenting the research and certification effort in the City's Award Management System. Internal controls have been put into place between the Fire and Accounting Departments to verify this step is completed. The Accounting Department will only process payments to vendors under Fire grants with documentation of the completed suspension/debarment check.</i>	
<b>Anticipated date to complete the corrective action:</b> 09/08/2014	

<b>Finding ref number:</b> 7	<b>Finding caption:</b> The City's internal controls over financial statement preparation are inadequate to ensure accurate reporting.
<b>Name, address, and telephone of auditee contact person:</b> Pam Dolan Accounting Director 808 W. Spokane Falls Blvd. Spokane, WA 99201 (509) 625-6034 pdolan@spokanecity.org	
<b>Corrective action the auditee plans to take in response to the finding:</b> 1) <i>Evaluate, modify and implement procedures to ensure adequate level of review of financial statement preparation (effective 12/31/14 financial statements).</i> 2) <i>Assess and apply systematic tools to automate the compilation and production of financial statements (2015).</i>	
<b>Anticipated date to complete the corrective action:</b> 2015	

<b>Finding ref number:</b> 8	<b>Finding caption:</b> The City did not have adequate internal controls to ensure compliance with federal Davis-Bacon prevailing wage requirements.
<b>Name, address, and telephone of auditee contact person:</b> Kim Bustos W 808 Spokane Falls Blvd. Spokane WA 99201 (509) 625-6034	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>The City acknowledges the compliance error with federal Davis-Bacon prevailing wage requirements and will implement the following corrective action plan to address the auditor's concern:</i> <ul style="list-style-type: none"> <li><i>The City will implement additional controls related to its CSO (combined sewer overflow) tank projects that ensure that all projects that may involve loan funding contain Davis-Bacon language. Engineering and accounting staff are more aware of these requirements so the finding was not repeated in subsequent years.</i></li> </ul>	
<b>Anticipated date to complete the corrective action:</b> 12/31/16	

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Contact information for the State Auditor's Office	
<b>Deputy Director for Communications</b>	Adam Wilson <a href="mailto:Adam.Wilson@sao.wa.gov">Adam.Wilson@sao.wa.gov</a> (360) 902-0367
<b>Public Records requests</b>	(360) 725-5617
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>